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Article Views Lessons of CPC History

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[Article by Wu Changde (0702 2490 1795), Deputy Director of the Propaganda Department in the Political Department of Nanjing Military Region: "Be Bold in Conducting Explorations and Blazing New Trails in Practice—Some Understanding From Studying the History of the CPC"]

[Text] The CPC is a party full of revolutionary spirit and is bold in accomplishing something unprecedented in human history. This boldness in conducting explorations and blazing new trails is a valuable revolutionary spirit, always upheld by our party in the last 71 years, as well as a piece of important and successful experience enabling the party to open up the way to victory in revolution and construction. Under the new condition of speeding up reform and opening up and accelerating economic development, it is of great importance for us to study conscientiously this fine tradition of our party, draw strength from it, encourage ourselves to emancipate our minds, and exert ourselves to make progress and new breakthroughs in our work.

I. Only By Conducting Explorations and Blazing New Trails Can We Open Up the Correct Road for Revolution and Construction.

Chinese revolution and construction have been carried out from their very beginning under the guidance of Marxism. However, Marxism is not a dogma, but a guide to action. It provides us only with the correct stand, viewpoints, and methods by which to understand and solve problems rather than readily answer all problems in our revolution and construction. To carry out the proletarian revolution and socialist construction in such a large, backward, and oriental country—China—we are sure to meet with many special and complicated problems. The correct answers to these problems cannot be found readily in the "books" of Marx and Lenin. Instead, they can only be found in conducting explorations and blazing new trails in practice under the guidance of Marxism. The 71 years of the party's struggle show that only by integrating the basic principles of Marxism with the concrete reality of the Chinese revolution and construction can we score one victory after another in our cause. The realization of such integration has experienced arduous and tortuous explorations and has embodied numerous creations of the communists and revolutionary people. The history of our party in leading the Chinese revolution and construction step by step to victory is not only a history of putting Marxism into practice, but also a history of bold explorations and creative proposition of new ways and methods for resolving problems in the Chinese revolution and construction, thus constantly developing Marxism.

Shortly after the founding of the CPC, it clearly put forward, in line with the general principles of Marxism, the revolutionary objective of "adopting the dictatorship of the proletariat to achieve the goal of class struggle—the elimination of classes," and of "abolishing capital private ownership," but it was not clear about how to realize this objective step by step. By memorizing some of the general principles of

Marxism-Leninism, and copying the experience of the Soviet Union, Cheng Duxiu, Wang Ming, and their like, failed to solve the major problems in the Chinese revolution. Moreover, they almost landed the Chinese revolution in an impasse. The greatness of Comrade Mao Zedong precisely lies in the fact that he did not dogmatize Marxism or deify the Soviet experience. Instead, he was bold in exploring new ways proceeding from the reality of the Chinese revolution and was good at putting forth new theories on the basis of the practice of revolutionary struggle. He creatively opened up the road to victory by encircling the cities with rural areas and seizing political power with the armed forces, and led the Chinese people in achieving the complete victory of the New Democratic Revolution. After the founding of New China, our party, in the light of the general principles of Marxism and Lenin's idea of buying-out the bourgeoisie peacefully, led the Chinese people to explore boldly in their revolutionary struggle, opened up creatively a road for the socialist reform suited to China's characteristics, guaranteed the nation's political stability and economic development in such an important and profound social change, and enriched and developed Marxist theory of scientific socialism. After smashing the "gang of four," a few comrades within our party insisted on the erroneous principle of the "two whatevers," and stagnating the party's work. Deng Xiaoping and other revolutionaries of the older generation supported with a clear-cut stand the general debate on the issue concerning the criterion of truth, pointed out sharply that we must break away from the ossified way of thinking of sticking to trammels and outdated ideas, emancipate our minds, seek truth from facts, and persist in testing and developing truth in practice. Since the Third Plenary Session of the 11th CPC Central Committee, our party, in its great practice of socialist modernization under the guidance of the correct ideas of Comrade Deng Xiaoping, has been bold in conducting explorations and blazing new trails, thus opening up a correct road of building socialism with Chinese characteristics. On a series of major theoretical and practical issues, our party has corrected the mistakes made by Comrade Mao Zedong in his later years, and enriched and developed Marxism, Leninism, and Mao Zedong Thought, thereby greatly liberating and developing the productive forces and bringing about unprecedented vitality to our socialist modernization drive.

A review of our party's history shows clearly that the correct understanding of our party concerning the issues of the Chinese revolution and construction is gained in the process of its struggle step by step. The cyclic and constantly deepening process of discovering and raising problems in practice, exploring and summing up experience in practice, abstracting and generalizing new theories and formulating new policies and principles in practice, and using these new theories to guide our practice is the road traversed by the party in gaining an understanding of the law of the Chinese revolution and construction. To practice boldly is by no means to practice blindly, but to practice with the guidance of Marxist fundamental principles. Such practice is not a passive and mechanical one, but the bold exploration and revolutionary creation in transforming the objective world

with the spirit of full initiative. New situations and problems will emerge one after another in our revolution and construction, and we often cannot wait until correct solutions are found. Instead, we would rather look for solutions in the course of our work. Only in the practice of transforming the objective world can we gradually have a deeper understanding of the objective world. The course of practice is the course of transforming the world, and the course of understanding the world. As long as we correct our ideological line and throw ourselves into the practice of revolution and construction, we are sure to gain real knowledge. As long as we are bold in conducting exploration, we are sure to be able to formulate new ideas and methods for solving to our problems. If a party intends to provide guidance for the revolution and construction, or if a person wants to accomplish his tasks, it or he should be bold in conducting exploration and blazing new trails in practice. In his important remarks at the beginning of the year, Comrade Deng Xiaoping pointed out, "The success of our reform and opening up is not dependent on the 'books' but on practice, on seeking truth from facts." "Without a bit of the fearless spirit of a pathbreaker, without a bit of the spirit of 'adventurism,' without being bursting with energy, we cannot walk out a good road, a new road, or take up a new cause." The exposition is not only a profound summary of the experience of the more than a decade of reform and opening up, but also a profound summary of the experience and lessons of our party in a period of 71 years and a vivid expression of the revolutionary spirit of our party in its bold exploration and innovation.

II. There Are Both Successes and Failures in Conducting Explorations and Blazing New Trails, But All Relevant Experience and Lessons Are Valuable Wealth.

There is no perfectly safe measure or absolutely reliable theory for exploration and blazing new trails, nor is there one hundred percent certainty for our success. On the road of exploration and blazing new trails, successes and failures are mixed, smoothness, and tortuousness emerge alternately. During the Democratic Revolution, our party achieved a series of major victories, such as the successes of arousing the workers and peasants in the millions to repulse foreign aggression and overthrow warlords, staging the Nanchang Armed Uprising, establishing the revolutionary base in the Jinggang Mountains, forming the broad united front, defeating the Japanese invaders, wiping out eight million troops of Chiang Kai-shek, and liberating China. However, the party also suffered many serious defeats and experienced a lot of setbacks. During the socialist revolution and construction period, our party attained a series of historical achievements while conducting explorations and blazing new trails; but it also made some serious mistakes such as the magnification of the Anti-Rightists struggle, "the Great Leap Forward," and "the Cultural Revolution," a decade of internal turmoil in China. There is no party and no individual that commits no mistake in this world, and the road for revolution and construction is not always straight. Judging from the history of our party, there are victories as well as setbacks in the party's exploration and advancement. Judging from a certain period, there were

often both successes and failures. Likewise, a person has both both rights and wrongs of him. Comrade Mao Zedong was an internationally-recognized great man and wise leader. In the cause of the Chinese revolution and construction, he wrote a lot of brilliant chapters, yet he also made some serious mistakes. This is the objective truth, the real history. It is only wishful thinking to hope that one can always achieve what one wishes and that there is always success in conducting explorations and blazing new trails.

Success and failure not only are interdependent but also transform to each other under certain conditions. Both experience and lessons are wealth that should be treasured. Failure is the mother of success, which has been proved time and again in the party's history. The massacre of numerous revolutionaries by Chiang Kai-shek make our party understand the truth that "political power grows out of the barrel of a gun," and then there came the armed struggle against the Kuomintang reactionaries. Only the repeated failures of city uprisings led to the establishment of the march toward Jinggang Mountains. The bitter lessons from "the Great Leap Forward" and "the Cultural Revolution" helped the party have a new and profound understanding of the law for the socialist revolution and construction, and consequently there came the historical changes of China after the Third Plenary Session of the 11th CPC Central Committee. Similarly, a success may lead to a failure if it is not attended to with care. The drums and gongs and showers of praise in celebrating victories are often the first signs of committing mistakes and having setbacks. In order to gain the initiative in the transformation of success and failure and of right and wrong, the following is of vital importance: First, we must be good at drawing lessons from failures and mistakes. Otherwise, the same mistakes are likely to be repeated. For instance, at the beginning of the anti-Japanese war, Wang Ming committed the mistake that "everything must be done through the united front," a repetition of the right deviation error in the latter period of the great revolution in China. Second, we should always be sober-minded and should never be proud when we score victories or successes. It must be remembered that the victory scored is not something to be depended on, and the correctness of our past experience is only of a relative nature.

New exploration and creation, even with the correct orientation, sometimes we may not be recognized immediately, may not lead to a new achievement, or may not be able to open up a new situation. Zhou Anlai led the Nanchang Uprising, and Mao Zedong led the Autumn Harvest Uprising. However, they were once criticized as having committed mistakes of opportunism and political and disciplinary measures were taken against them at the enlarged meeting of the Provisional Political Bureau of the CPC Central Committee held in November 1927, because the two uprisings, though scoring initial victories, later suffered setbacks on several occasions. In 1929, Mao Zedong and Zhu De, after taking the main forces of the Fourth Red Army to the Jinggang Mountains, began to establish new base areas in southern Jiangxi and western Fujian. This decision was undoubtedly correct. However, at the initial stage, they met with a lot of difficulties. The armed forces, being away from their original revolutionary bases and

being pursued and attacked by the massive enemy forces, were repeatedly put in a dangerous situation. The reason for this is that correct ideas, revolutionary forces, and the experience of the leadership must all go through the process of gradual development in practice, and the process of quantitative accumulation to qualitative leap. New methods and new ideas must also go through a process of gradual perfection and constant improvement. When unfavorable conditions appear in our practice of exploration and blazing new trails, we must make a cool analysis and seek truth from facts. If the orientation is incorrect or the road is wrong, we should make a change promptly. If it is a temporary disparity in strength, if it is some mistake in subjective guidance, or if it is an obstacle in a certain link, we should go on with our endeavor to accumulate strength and experience in practice, to overcome our shortcomings, and continue to advance. Though we may taste the bitterness of failure in the practice of making new attempts or blazing new trails, there always exists the possibility or hope of success. On the other hand, if we are restrained by the previous experience, stick to convention, or try to map out behind closed doors a perfectly safe plan before taking action, there is no possibility for us to enjoy the happiness of being successful.

III. Revolution and Construction are the Practice of the Masses of the People in Their Tens of Millions, So We Must Follow the Mass Line in Exploration and Blazing New Trails.

Lenin said that vigorous and creative socialism was created by the masses of the people. The Chinese revolution is the historical activity of the Chinese people in their efforts to overthrow the three big mountains [imperialism, feudalism, and bureaucratic capitalism] and win their liberation. The modernization drive in China today is the great cause of the Chinese people to shake off poverty and backwardness and to win prosperity and happiness. "Everything for the masses, depending on the masses in anything, from the masses and to the masses" is the basic line of our party in all its work and it is implemented in all the party's basic activities.

The masses of people are the main body in the practice of revolution and construction, and the real motive force of history. To rely firmly on the people and to always keep a flesh and blood relationship with the people is the fundamental reason why our party has been able to overcome all hardships and difficulties in its exploration and to crush all its ferocious enemies. Why could the red banner of the Jinggang Mountains still be held high despite the repeated "encirclement and suppression" of the enemies? Apart from Mao Zedong's outstanding military command and the unyielding heroism of the Red Army fighters, the most essential reason was the full support of the broad masses of poor peasants. Without their full support, the single spark of the Jinggang Mountains would have unavoidably gone out. In the initial stage of the war of liberation, we were facing a relatively grim situation since the Kuomintang occupied an obviously dominant position over us both militarily and economically. However, after a trial of military strength for only two years, our armed forces changed from inferiority to superiority, from being defensive to offensive, and achieved

one after another the victories of the three greatest campaigns—the Liaoxi-Shenyang campaign, the Huaihai campaign and the Beijing-Tianjin campaign. The victories of the three greatest campaigns were brilliant victories of the war of the people. The superb art of military command of the CPC Central Committee and the Military Commission of the CPC Central Committee headed by Mao Zedong played an important role in guaranteeing those victories. Nevertheless, the decisive factor of these great strategic decisive victories was the enthusiastic support of the Chinese people in the hundreds of millions. In the 43 years since liberation, all the great achievements obtained in socialist construction are results of the initiative, enthusiasm, and creativeness of the masses of the people who have worked with their hands and wisdom.

The practice of the masses of the people is the source for understanding the law of revolution and construction. The masses of the people have a vast reservoir of creativity. All the outstanding achievements in revolution and construction are, in the final analysis, created by the masses of the people. All the correct ideological theories, principles, and policies for revolution and construction are summaries and generalizations of the rich and practical experience of the people. However outstanding a revolutionary, a thinker, or a theorist may be, he is unable to create any valuable things if he is separated from the social practice of the masses of the people. A wise leader does not rely on his own brains but on the wisdom of the masses, on learning from the masses and on summing up the creation of the masses. The theory of building socialism with Chinese characteristics was put forward by Deng Xiaoping on the basis of summing up both the positive and negative experience of our socialist construction since liberation. It has condensed the achievements of the party and people in decades of arduous exploration and fruitful creative activities. Comrade Deng Xiaoping noted time and again, "The contract responsibility system on a household basis with remuneration linked to output practiced in rural areas was first proposed by the peasants. A lot of good things in the rural reform are created at the grass-roots level, and then processed and upgraded to serve as guide for the whole nation." "From the masses, to the masses" is not only the leadership method and working method, but also the method of knowledge. The process of "from the masses, to the masses" is actually the process of "from practice, to practice." Practice of this kind is not isolated practice of an individual, but social practice of the masses. Therefore, leading individuals should conscientiously integrate their personal practice with that of the masses, thus making their own understanding more comprehensive and profound.

To win over the masses, and to gain the support of the masses, is not what we can do with declarations or slogans, but with our action, and with the real interests we bring to the masses. During the struggle in the Jinggang Mountains, the broad masses of the poor peasants realized that the Red Army was fighting for their interests from the fact that they got their own land, so they gave their full support to the Red Army and to the development of the base areas. Just as Du Xiujing, the representative of the Hunan Provincial CPC

Committee, once said in his report to the provincial committee, "The masses of the people began to have faith in Commander Mao after the overthrow of local tyrants and they began to have faith in the party and the soviet after they had their land." The fundamental reason for the nationwide enthusiastic support to the party's line, general, and specific policies since the Third Plenary Session of the 11th CPC Central Committee, is that they have brought tangible benefits to them and to the whole people. In his latest remarks, Comrade Deng Xiaoping pointed out profoundly, "Why can our country remain very stable after 'June 4th'?" This is because we have implemented the reform and opening up policy, promoted economic development, and improved the living standard of the people." In summing up the historical experience of our party, we should always remember that in no time should we forget that all our practice, exploration, and creation are for the people, rely on the people, and bring benefits to the people. During the great cause of socialist modernization, to judge the success or failure in exploration or blazing new trails is, in the final analysis, to see whether it is conducive to the development of the productive force of the socialist society, the enhancement of the comprehensive national strength of our socialist country, and the improvement of the people's living standard.

Article on Importance of Eliminating Corruption

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[Article by Ch'ang Yanting (1603 1693 1694), Discipline Inspection Group Leader of the CPC Central Discipline Inspection Commission in the Ministry of Posts and Telecommunications: "Several Reflections on Getting Rid of Corrupt Phenomena"]

[Text] Corrupt phenomena are a hot topic of discussion among people both inside and outside the party, and also represent a key issue that must be dealt with in the building of a good party style and clean and honest administration. We should firmly carry out the idea put forth by Comrade Deng Xiaoping that "In the entire course of reform and opening up, we must combat corruption. Cadres and party members should take as a major task the building of clean and honest government." Corrupt phenomena are a chronic disease, but not a fatal one, and they can surely be restrained.

I. To Establish a Restrictive Mechanism and Curb the Abuse of Power

Corruption can be seen in various ways, but most conspicuous in party and government organs is the trade of power for money. The basic characteristics are the use of power as capital, human feelings as media, money as bait, with personal gain the final goal. An important reason for the breeding and spread of these phenomena is that we have no timely and sound mechanism to restrict power. An important task for us at present and in the future is to improve, perfect, and strengthen the power-restriction mechanism, and prevent abuse of power. For this purpose, we must attach importance to doing a better job in the following two

aspects, that is, to establish and improve the external and internal restrictive mechanism.

First, to establish the external restrictive mechanism. Many facts have shown that making public the system for handling affairs and the results of its activities and letting the broad masses participate in supervising this effort are effective measures to check unhealthy practices and corrupt phenomena within the party. In the past, the way party and government organs handled affairs, including affairs closely related to the masses, was quite mysterious. Less transparency means more opportunities for those who are engaged in misdeeds for selfish ends. In recent years, many places—one after another—have adopted the system for handling affairs of "publicity in two aspects and one supervision" to increase transparency. This has played an important role in constraining the growth of unhealthy practices and corrupt phenomena within the party. "Clean water is unlikely to hide anything dirty, and it is easy to catch fish in troubled water." Publicity provides no concealment for selfishness and misdeeds and helps to bring about fairness and honesty. People praised the practice of giving greater publicity as "neither selfishness nor misdeeds can hide when fish are viewed in clear water." But in actual work, we have to pay attention to four aspects: Extensiveness. Systems related to handling affairs involving the masses should all be publicized; Scientific. All systems should be realistic, easy to implement, and workable; Thoroughness. All systems having a direct bearing on the interests of the masses should be made public no matter without consideration for the effect such publicity will have on the interests of relevant departments. We should guard against the practices of some departments that publicize those systems that are to their advantage and keep secret those that are not; Solemnity. Attention should be paid to the inspection and implementation of systems and make sure that every system is properly implemented after it comes into effect.

Second, to establish the internal restrictive mechanism and to put the exercise of various kinds of power under the restriction of regulations and systems. The main points are as follows: 1) To improve the cadre management system. The longer a cadre works in a place, the more complicated his relationship with the community, and the extension and fanning out of various kinds of unhealthy social relationships create a good atmosphere for the breeding of corrupt phenomena. "A fellow townsman is worth more than three official seals." "The official seal, though as big as a bowl, is not as good as a word put in by a relative or a friend of the cadre concerned." These are reflections of the actual state of things. In order to eliminate corrupt practices, some places have—one after another—established systems to change cadres' postings to prevent cadres from working in the same department with their relatives, exchange cadres, and make readjustments in the posting of cadres, and, by readjusting the working locations of cadres, power abuse can be effectively restricted. 2) To appropriately decentralize power to create a self-checking mechanism. In view of the fact that there are some grass-roots units, departments, and individuals with too much power but little restriction, it is necessary to appropriately decentralize power over personnel affairs, financial matters, and management of materials

because, people who command such power are susceptible to corruption. By changing the power structure in which only one person has the power to make decisions, we can reduce corruption. 3) To practice cross management, i.e., to assign certain management or checking functions over the same piece of work to different units, departments, and individuals so that a kind of mutual supervision system can be set up. The system's main forms are supervision by offices with different functions, by different people, and by departments at the same levels and at different levels.

In short, it is very important to establish a system of complete, effective, self-operating, and comprehensive restrictive mechanisms so that we can use it to standardize and restrict the cadres' behavior, to guard against corruption, and to maintain clean and honest administration.

II. To Maintain a Clean and Honest Administration, We Must First Eliminate Corruption

There are various expressions of corruption, but, to sum up, they all center around the word "greed." Therefore, the fight against corruption has become an important issue that must be solved in maintaining the cleanliness and honesty of party and state organs. To combat corruption, we must adhere to the principle of strictly administering the party, must investigate and carefully deal with cases of discipline violation within the party, enforce party disciplines earnestly, and get rid of degenerated elements within the party. We must first of all make the focal points stand out; at present, there are two focal points. As far as the problem itself is concerned, the masses of the people have a strong aversion to such things as graft, bribery, extortion, blackmailing, serious abuse of power for personal gain, extravagance, and waste, which should be investigated and dealt with as one of the focal points. As far as the targets are concerned, we should take cases of leading cadres or cases involving leading cadres as the focal point, because the cleanness and honesty of leading cadres is an important yardstick for the masses in viewing and judging the quality of the party's working style. Whether leading cadres can observe discipline and abide by the law has a direct bearing on the relationship between the party and the masses and between the cadres and the masses as well as on the image of the party and the government. Although there are only a few cases involving leading cadres, the impact of, and the damage done by, these cases are very important, as the position and role of leading cadres are different from ordinary party members or cadres. Only by doing a good job in administering leading cadres can we further improve the government's work style and society's general practice. In dealing with cases involving leading cadres, we should inexorably and impartially investigate and handle each case and make it public in a timely manner to increase and enhance the confidence of the vast numbers of cadres and the masses in combating corruption. We should remove obstacles and make breakthroughs in overcoming difficulties. An important reason why some cases of discipline violation are so difficult to investigate and deal with is that the people concerned in these cases are mostly party members and leading cadres, who have power, great "capacity,"

many friends and acquaintances, a good "network of relationships," and a thick "protection layer." As a result, the resistance and interference are great in investigating and handling these cases. To solve this problem, party committees should support discipline inspection commissions in the latter's work, and commissions at higher levels should support commissions at the lower levels to carry out the latter's duties and to help the latter overcome resistance in handling cases. Organs and cadres from discipline inspection commissions should be bold in tackling difficult problems, should adhere to principles, and should fairly enforce discipline.

III. To Concentrate Our Efforts on Checking Up and Rectification and Curb Widespread Unhealthy Practices

Corrupt phenomena have very complicated expressions in real life. Some have constituted a criminal case, some are close to criminality, while most are mixed in with other common social practices. What should we do to solve this kind of problem? We cannot return to the road of political movements, but we must still mobilize and rely on the masses. Many localities' experience has shown that concentrated rectification and specialized clearance are an effective means for solving the problem of prevailing unhealthy practices, that is, to seize some typical cases or problems that have become widespread for some time in local areas, and relatively concentrate our time, efforts, and leadership strength on checking such unhealthy practices and enforcing discipline. There are two obvious features of concentrated rectification and specialized clearance: One, being "broad and lenient," i.e., to carry out a widespread education but to avoid asking everybody to pass a test in order to solve general problems existing in a wide area and to find a better solution to many of the problems that have not yet been classified as criminal cases. Two, being "deep and thorough", i.e., to take hold of key problems, units, and persons to solve problems more thoroughly.

Historical experience has shown that political movements are not the method we should use to solve the problems of corruption, much less to solve problems involving the relationship between the party and the masses and between the cadres and the masses. Political movements often need too much effort, but their results are not obvious, and they cannot last long. Therefore, since the Third Plenary Session of the 11th CPC Central Committee, the party Central Committee has clearly and definitely made it known that political movements should no longer be used to solve problems concerning ideology or work style. Though political movements should not be used to improve party style or to build a clean and honest administration, we must have faith in and rely on the masses, as this is the starting point and the end result of all of our work as well as the basic underpinning for our effort to curb corrupt phenomena and get rid of unhealthy practices. Various corrupt phenomena are, in the final analysis, harmful to the basic interests of the people and, therefore, arouse the deepest hatred of the masses. To fulfill its sole propose of serving the people wholeheartedly and safeguarding the fundamental interests of the people, our party is now engaged in combating corruption, eliminating corrupt phenomena, and clearing

the degenerate elements out of our ranks, which will undoubtedly gain the firm endorsement and wide support of the masses of the people. Leading cadres live among the masses, so the people are clear about who is good and who is bad. Though corrupt phenomena are in various forms and some activities are in violation of the law and discipline are well hidden, none of them can escape the eyes of the masses. As the masses are most familiar with the ins and outs of those matters, what the criminals fear the most is the mobilization of the masses. As long as we mobilize and rely on the masses, we can discover the missing facts in difficult and complicated cases and crack these cases. In short, only when we have faith in the masses, mobilize them, and give them guidance can we carry out the struggle against corruption in depth and with intensity.

IV. To Lay Equal Emphasis on Ideological Education and Improvement of Regulations

The education of party style and discipline is the foundation, while regulations are the guarantee. When combined together organically, they complement one another; when separated from one another, each has limitations. There are several reasons behind violations of law and discipline and various kinds of unhealthy practices within the party, but they are all in essence closely related to the world outlook of our party members and are inseparable from the fact that some of our comrades have not or have not altogether solved the problem of "joining the party ideologically." In this sense, education is the foundation. Strengthening education on party style and discipline and enhancing party spirit represent the essential ways to conscientiously resist the corrosive influence of various kinds of non-proletariat ideas. Once we do a better job of this, we will not only raise the general quality and theoretical level of party members and help them avoid making mistakes or help them make fewer mistakes, but also help prevent the accumulation of problems. Ideological education should be integrated with the perfection of our laws and regulations. Though we have made some achievements in combating corrupt phenomena, the situation is still far from satisfactory. Unhealthy practices are sometimes more serious and sometimes less serious. Some corrected ones also often revive. An important reason for this is that rules and regulations are unsound and are not effectively enforced. Without the guarantee of rules and regulations, it is impossible for us to achieve lasting results in combating corruption and advocating clean and honest administration. The improvement of rules and regulations plays a role that cannot be replaced with ideological education. Therefore, in the relationship between ideological education and the improvement of rules and regulations, it is wrong to put too much emphasis on one and neglect the other. We should integrate them organically and let them complement one another.

V. To Take Preventive Measures and Solve Problems Before They Become Prevailing

Consistently studying and analyzing the occurrence, development, and changes in the nature of discipline violations within the party and using these lessons to educate our party members is an important condition for restricting the development of corrupt phenomena. We should adhere to the

policy of "putting prevention first." If we focus all our efforts on treatment and none on prevention, we will bring our work to a vicious cycle of "disease-treatment-reoccurrence of diseases-treatment again." The most effective preventive measure is to study and find out the regularity of various kinds of unhealthy practices and corrupt phenomena and to use what we learn to educate party members before such phenomena or practices occur. Many localities have summed up their experience of taking preventive measures in advance, and their experience can be used as our reference: When signs of violations of discipline are detected, we should warn our party members in good time, educate them as soon as possible, and nip discipline violations in the bud. When problems have developed a kind of tendency, we should work out measures to prevent them from accumulating. As for the widespread problems, we should formulate regulations to restrict their development, take remedial measures, and prevent the recurrence of such problems. We should give our party members constant warnings and continuous supervision. In a word, if we provide our party members with better and deeper education against corruption, we will greatly reduce the work of meting punishment later.

VI. To Tackle Problems of Corruption in a Comprehensive Manner

The elimination of corrupt phenomena relates to every aspect of our party and state affairs. To tackle such problems in a comprehensive way and to achieve better results calls for the concerted efforts of the whole party. First, we should firmly grasp party, administrative, and legal discipline at the same time. In the new situation, various kinds of discipline violations are complicated. They involve many people, and are difficult to investigate and handle. Tackling these problems requires that our supervisory and legal organizations must cooperate closely, complement one another in their work, and form a joint force in combating corruption. Second, we should do a better job in the comprehensive improvement of party and administrative styles and common practices of society. Unhealthy practices are not isolated from one another, and neither are party and administrative styles and common social practices. They influence and penetrate each other. Therefore, while doing a good job in the rectification of party style, we should also pay attention to improving the administrative style and common social practices so as to form a general social environment for combating corruption and enforcing discipline. Third, joint efforts of organizations of the party, the government, the trade unions, and the Communist Youth League are needed to check and prevent unhealthy practices, and each organization should play its role in light of their own circumstances and make concerted efforts to form an integrated force.

VII. To Firmly Implement Rules and Regulations

Summing up the experience of various localities, we find that there are four major lessons: First, concrete work is needed to improve party style and promote a clean and honest administration. There is no "panacea" in improving party style and promoting clean and honest government. As long as leading cadres are resolute, attach importance to

work in this respect, and personally attend to the work, we can surely expect great achievements. The key issue is whether we really grasp such work or only do so in a perfunctory manner. Some of the local leading comrades, doing away with various kind of erroneous ideas conscientiously, have managed to grasp the improvement of party style and the promotion of clean and honest administration in thinking, measures, and actions.

Second, focusing the attention of the masses is regarded as the center of the work in combating corruption and advocating clean and honest administration. There are various complicated expressions of unhealthy practices and corrupt phenomena within the party, and this brings us to the question of where we should begin our work? We should proceed with concrete work and, centering around those problems that people discuss most and criticize most severely, define the main direction for each stage in combating corruption and advocating clean and honest government, and solve the problems one after another. We should start with concrete problems and solve them one by one in order to achieve concrete results and obtain the people's confidence. In so doing, we can also fully realize the party's mass line and regard the wishes and demands of the masses as the first signals for making decision.

Third, we should make real efforts in implementing rules and regulations. There is an abnormal phenomenon that rules and regulations have "detering force" but have no restraining force. Very often they are not implemented. The people have described such a phenomenon as "a traffic post without a policeman," "nobody actually solving any problem despite many documents with red letterheads," and "loud words, lax actions, and no implementation." In this way, rules and regulations will lose their solemnity and restrictive power. We must seriously enforce discipline and get rid of the phenomenon that "rules and regulations are as thick as trees but there is no one to carry them out."

Implementation of Deng's South Tour Talks Urged

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[Article by Lan He (5695 3109): "Firmly Grasp Economic Construction as the Center—Understanding the Study of Comrade Deng Xiaoping's Important Talks"]

[Text] Currently, the whole party and the people throughout the country are conscientiously studying the talks Comrade Deng Xiaoping delivered when he inspected several southern provinces and cities not long ago. The basic gist of Comrade Xiaoping's talks is seizing the opportunity, quickening the pace of reform, opening up wider to the outside world, and developing the national economy. The talks, which have a highly directional and practical nature, have enriched and developed Marxism in many major issues. As long as we comprehensively and accurately understand their gist and effectively implement it, we will surely be able to push China's socialist modernization to a new stage of development. Here, I would like to discuss my personal understanding of studying the talks.

Where the Fundamental Interests of the Proletariat, Which Has Seized Political Power, and the Broad Masses of People Lie

A socialist country's main task is to concentrate efforts on developing the productive forces. This is Comrade Deng Xiaoping's consistent thinking, which stems from Marxism, the realities in China, and from the integration of the two. Marx, Engels, and in particular, Lenin, all stressed that after the proletariat seized political power and expropriated the expropriated, it should vigorously develop the productive forces; and pointed out that this was of great significance to the victorious proletariat and the broad masses of people.

One basic tenet of historical materialism holds that productive forces are the final decisive force for social development and that the development of productive forces causes a change in the relations of production and all social relations. This tenet is applicable to all social formations. Socialist society is no exception. The establishment of socialist society should take modern socialized mass production as its material base. The consolidation and development of socialist society is inseparable from such productive forces, because socialism wants not only to abolish the exploiting system of man by man to enable the people to live a better life but also to gradually eliminate all class differences left from history, the differences between town and country, between workers and peasants, and between mental and physical labor to achieve overall development. All these efforts should be based on the highly developed productive forces and extremely rich materials and products. As far as the proletariat and the broad masses of people in a former economically and culturally backward country are concerned, the task of developing the productive forces apparently becomes more arduous and urgent. Apart from completing the aforesaid common task, what is most direct is that they should establish an increasingly solid foundation for the newly born political and economic systems by developing the productive forces. Such a material base is absolutely indispensable to the consolidation of the newly born socialist system. Particularly, it must be noticed that from the day the socialist system was born, imperialism tried every possible means to strangle the newborn. As armed intervention failed to work, peaceful evolution was practiced. In the trials of strength, economic and technological backwardness put socialist countries in an extremely unfavorable position. Only when a socialist country energetically develops the productive forces and strives to catch up with and surpass the developed capitalist countries as quickly as possible can it more convincingly prove to its own people and the world that the socialist system is superior to the capitalist system, can the socialist system have great appeal and cohesiveness, and can the imperialist threats of subversion and peaceful evolution be thoroughly wiped out. It can thus be seen that vigorously developing the productive forces and concentrating efforts on bringing about an upsurge in economic construction is really where the fundamental interests of the working class and the broad masses of people of socialist countries lie.

In recent years, Comrade Deng Xiaoping has repeatedly propagated this Marxist basic viewpoint to the whole and the people across the country. He said: "In a socialist

country, a genuinely Marxist ruling party must devote itself to developing the productive forces and, with this as the foundation, gradually raise the people's living standards" (*Building Socialism With Chinese Characteristics*, revised and enlarged edition, p 15). He said: "Marxism attaches the utmost importance to developing the productive forces. We advocate communism. But what does that mean? It means the principle of from each according to his ability and to each according to his needs, which calls for highly developed productive forces and overwhelming material wealth. Therefore, the fundamental task for the socialist stage is to develop the productive forces. The socialist system's superiority is demonstrated by its faster and greater development of the productive forces than that of the capitalist system" (idem, pp 52-53). Not long ago when he inspected the south, Deng Xiaoping again said: "The essence of socialism is liberating the productive forces, eliminating exploitation and polarization, and ultimately achieving common prosperity. I want to talk to you about this truth."

True, Comrade Deng Xiaoping propagated this truth once and again out of his firm belief in Marxism as a great proletarian revolutionary and also because it is not easy to persistently implement this seemingly ordinary and very simple truth.

During the 30 years from New China's founding and the Third Plenary Session of the 11th CPC Central Committee, we spent very little time on genuinely concentrating on construction. In the early days of the PRC's founding, we faced heavy tasks: Externally we were engaged in the War to Resist U.S. Aggression and Aid Korea and internally, we were mopping up the remnant forces of the Kuomintang, forcing down prices, unifying finances, beating attacks launched by unlawful capitalists, conducting agrarian reform, and carrying out socialist transformation of handicrafts and capitalist industry and commerce. At that time, objective conditions did not allow us to wholeheartedly carry out construction. However, as far as guiding ideology was concerned, at that time, great importance was attached to economic construction and a great deal of attention was paid to practical work. It took only three years to enable the seriously war-torn national economy to recover. Later on, the First Five-Year Plan was smoothly completed ahead of schedule, thus laying a foundation for China's modernization program. In that period, the economic gap between China and the developed countries had obviously narrowed and a marked improvement was achieved in the people's living standards. Everybody felt that socialism was fine from the bottom of their hearts. In 1956, the socialist transformation of the private ownership system of the means of production was basically completed and the socialist system was established in all aspects. The party convened at the right moment its eighth national congress. The congress declared that the contradiction between the proletariat and the bourgeoisie had been basically resolved in our country. The principal contradiction within the country was the contradiction between the people's demand for the establishment of an advanced industrial country and the reality of a backward agricultural country and between the people's demand for rapid economic and cultural development and the existing state of our economy and culture

which fell short of the people's needs. The chief task confronting the party and the people was concentrating all efforts on solving this contradiction. The line of the eighth national congress could be summarized into one sentence: The party should adapt itself to the changed situation and shift the previous work of taking class struggle as the center to the taking of economic construction as the center. This was entirely correct. It was a pity that not long after the convocation of the eighth national congress, some events took place at home and abroad which helped the "leftist" ideas raise their heads within the party and, consequently, the eighth national congress line failed to be adhered to. The Third Plenary Session of the Eighth CPC Central Committee held in 1957 changed the eighth national congress' formulation. The session held that the contradiction between the proletariat and the bourgeoisie and between the socialist and capitalist roads remain the principal contradictions in socialist society. In the 20 years or more since then, the party's work was almost centered on "taking class struggle as the key link" and developed with increasing intensity. There was completely no way to concentrate energy on construction. It was true that the 1958 "Great Leap Forward" reflected the people's strong desire to lift our country from the state of "poverty and blankness," but since it grossly violated objective laws, it brought about extremely great damage to the country. The readjustment drive in the early 1960's was forced to be carried out with unchanged guiding ideology. Therefore, once the situation showed a slight turn for the better, twists and turns occurred. The unprecedented "Great Cultural Revolution" once again greatly sapped the national economy's vitality. In those 20 years or so, China's economy developed slowly. The narrowed gap between ourselves and developed countries had again widened. In December 1978, the party held the Third Plenary Session of the 11th Central Committee and conscientiously summed up the experiences, positive and negative, since the PRC's founding, in particular, since the "Great Cultural Revolution," and decisively made a strategic policy decision to shift the focus of the party's work to modernization. Thanks to the efforts devoted over the past dozen-odd years, a great change has taken place in the face of China. The achievements scored since then are far more than what was achieved in the last 30 years. Historical experience has proved that as far as socialist countries are concerned, concentrating all energy on construction and developing the productive forces as quickly as possible is the only correct policy. Only in this way can the socialist cause thrive and become more prosperous everyday. Otherwise, we will be divorced from the broad masses of people and be passive and vulnerable to attack in the international community because of our failure for a long time to lift ourselves from the poverty and backwardness.

To sum up experience in theoretical understanding, at least it can be noticed that the deviations we committed in the following issues can be contributed to our departure from the center of economic construction for a long time in the past: 1) As we have mentioned above, we mistakenly appraised the situation of class struggle in the country after the basic completion of the three great transformations; 2) we stressed the driving role of the relations of production in

the productive forces and neglected that the relations of production can play such a role only when they are commensurate with the level of the productive forces, then we devoted excessive efforts on changing the relations of production, and neglected, consciously or unconsciously, to lay out a material base for the new relations of production, and 3) in the issue of the relationship between politics and economics, we failed to unify the notion that compared with economics, politics has to occupy the first place and the advocacy of taking economic construction as the center and, in reality, we diluted the latter with the former, consciously or unconsciously. Theory is aimed at directing practice. Errors in theory and understanding are bound to lead to errors in practical work. As far as positive and negative experiences are concerned, we should strive to have a correct theoretical understanding. This must be considered an important experience.

Seize the Opportunity and Strive Hard To Upgrade the Economy to a New Level Every Few Years

In his southern tour talks, Comrade Deng Xiaoping reminded the party: We should seize the opportunity and develop ourselves. The localities where conditions permit should strive to develop themselves as far as possible to upgrade China's economy to a new level every few years. This is of great immediate significance in further emancipating our minds and doing a good job of the current economic construction and the economic construction in the days to come.

Why does Comrade Deng Xiaoping attach such great importance to the speed of economic development? This is because, although China's national economy has made rapid progress since the Third Plenary Session of the 11th CPC Central Committee, compared with Western developed countries, we still have a long, long way to go. If we do not speed up our economy's development, it will be very difficult for us to catch up with them. Some peripheral countries and regions, which were formerly economically backward, have managed to catch up in recent years and some have obviously surpassed our country in growth rate terms. If we do not pay close attention to development, we will not be able to convincingly prove the socialist system's superiority. We must keep a cool head on this point and have a sense of urgency.

We need a relatively high growth rate. In terms of the current situation, it is possible for us to strive for a relatively high growth rate on the premise of having comparatively good economic efficiency.

First, through 40 years or so of construction, in particular, through a dozen-odd years of development since the drive of reform and opening up to the outside world was conducted, we have entered several development stages with our economy and accumulated relatively solid economic strength, and thus had the conditions for faster development. China's current economy has the following characteristics: 1) China's comprehensive national strength has been boosted. In 1949, China occupied the 13th place in the world in terms of national strength and has now leaped to sixth place. According to a study of experts, various

appraisals for China's national strength were universally on the low side due to different elements, such as foreign exchange rates and commodity prices. In other words, our country's actual strength rating can be moved up a bit further. With its strength boosted, China has managed to increase accumulation considerably while improving the people's living standards. At present, our country can spend 500-600 billion yuan investing in fixed assets a year. As long as we properly use this money, we can accomplish a lot of things and accumulate staying power for a further economic takeoff. 2) An industrial system with complete sectors has been established and the rich resources have been gradually exploited. China stands among the 1st countries in the world in terms of grain, cotton, coal, steel, petroleum, and electricity output. A foundation has been laid in its scientific and technological undertakings. All this has helped enhance our economy's ability to develop itself independently. It is entirely necessary for us to develop a little faster than those countries or regions with a single-product economy and poor resources. 3) China's vast domestic market has enormous potential for development. Even in a time of world economic recession, by relying on the domestic market, we still have considerable room to maneuver and can maintain a comparatively high growth rate. While developing the domestic market, if we further open up world markets, we will have boundless prospects.

Second, we have a superior socialist system as a guarantee. China's current economic strength was almost developed and accumulated after the founding of New China. The reasons are: 1) Thanks to the socialist system's establishment, New China could stand independently in the forest of world nations, was no longer manipulated by big powers, and thus gained the right to develop its national economy independently. 2) Public ownership has enabled us to concentrate forces on undertaking big things, and 3) the relatively fair distribution of social wealth is conducive to bringing the enthusiasm of the broad masses of people into full play. Especially since the Third Plenary Session of the 11th CPC Central Committee, through the efforts to emancipate the mind and bring order out of chaos, we have gained a comparatively profound understanding of China's national condition in which our country was still in the initial stage of socialism and of the fact that socialism is of long duration and develops by stages, and adopted both principled and flexible policies, thus pumping greater vitality into our economy.

Third, several years of economic improvement and rectification have further created a relatively relaxed environment for further economic development. In the last few years, inflation was serious, prices fluctuated too excessively, construction of redundant projects led to disproportions between processing and basic industries, and agriculture lacked staying power for further development. In the face of strains in the relations of various aspects, it was impossible for the economy to grow steadily at high speed. Thanks to the efforts to improve the economic environment and rectify the economic order, inflation was put under control, agriculture got out of the situation of progressing haltingly, raw and semifinished materials, energy, and other basic

industries were strengthened; and transport and communications were developed considerably. All this shows that at present we already have conditions for faster development.

Fourth, through a dozen-odd years of reform and opening up to the outside world, China's coastal areas, such as the Zhu Jiang delta, the Chang Jiang delta, and Shanghai, which have very sound economic bases, have maintained a strong momentum for development and they completely have the conditions for faster development. Therefore, they should strive hard to catch up with the surrounding newly developed industrialized countries and regions within a short period of time and give an impetus to the faster development of the economy of the hinterland and of the country as a whole. For example, after the development of Shanghai's Pudong is accelerated, it will surely bring along the development of the various cities along the Chang Jiang, such as Wuhu, Jiujiang, Yueyang, Wuhan, and Chongqing, and through these cities, its impact will expand to the inland areas.

Finally, the current international situation is also helpful for us to speed up the pace of economic development. The economic sanctions imposed on us by major Western countries following the political turmoil in 1989 have collapsed of themselves. This is partly because our political and economic situation is stable and, in the multipolar world pattern, China's position is getting increasingly important and any settlement of major international issues is inseparable from Chinese participation and partly because it was needed by the Western economy's own development. At present, recession can be found universally in the Western economy. Through a period of observation and comparison, many Western enterprises felt that China was a relatively ideal place for investment. The combination of Western funds, technology, and equipment with China's resources, labor, and market will bring about considerable benefits. Therefore, in recent years, there has been a sharp increase in foreign investment in China. Undoubtedly, this will greatly help accelerate our economy. Particularly, the vast numbers of Third World countries are devoting efforts to developing their own economies. Compared with the products of developed countries, Chinese products can better meet the needs of developing countries in terms of quality, grade, and price and, therefore, they are considerably competitive. This being the case, we can still accomplish much in entering the international market with our products.

To put it briefly, the current domestic situation and international environment are conducive to China's faster economic development. The Chinese people are facing a great historical opportunity. At this crucial juncture, Comrade Deng Xiaoping reminded us in time that we should set up high aims and lofty aspirations, seize the opportunity, develop ourselves, and fight for the Chinese nation's vigorous development. On no account should we let Comrade Deng Xiaoping down.

The Modernization Ship Should Be Generated and Directed by the Party's Basic Line

To take economic construction as the center, it is necessary to carry out the drive of reform and opening up to the

outside world and uphold the four cardinal principles. In the talks he delivered during his tour of the south, Comrade Deng Xiaoping reaffirmed the basic line which he initiated and formulated. He said: "The key to upholding the line, principle, and policies adopted since the Third Plenary Session of the 11th CPC Central Committee lies in adherence to 'one center, two basic points.' If we do not adhere to socialism, do not carry out reform and opening up, do not develop the economy, and do not improve the people's living standards, then there will only be a road to ruin. The basic line should be operative for 100 years and must not be shaken."

Like other societies, socialist society also develops along the movement of contradictions between the productive forces and the relations of production and between the economic base and the superstructure. The production relations should be suited to the productive forces and the superstructure should be suited to the economic base. People living in a socialist society should change or readjust the sections of the production relations and the superstructure which are not commensurate with the requirements of the development of the productive forces and the economic base, so that society will always maintain its vigor and vitality. In the final analysis, the economic and political structural reforms, which we are now carrying out intensively, are aimed at effecting such a change or readjustment, with an aim mainly to make the production relations and their realization forms more suited to the current level of the productive forces.

After the Third Plenary Session of the 11th CPC Central Committee, we started reform first in agriculture and expanded it to cities in an all-round way in 1984. While maintaining public ownership's leading position, we energetically developed multiple economic sectors; while adhering to regulation by planning, we expanded the ratio and scope of the use of regulation by market mechanisms; and while practicing the principle of distribution according to work done within the economic sector under public ownership, we allowed the use of other distribution forms and encouraged some people and some localities to get rich before others through hard labor and legal operations. Our reform has entered the various links of such areas as production, distribution, and consumption, and touched the various aspects of the superstructure, thus bringing about a momentous change in the face of the country's economy and society within a short span of a dozen years or so. In his southern-tour talks, Comrade Deng Xiaoping pointed out: "Revolution is aimed at liberating the productive forces. Reform is also aimed at liberating the productive forces." This is a brilliant generalization and summarization of China's reform cause. As long as we unwaveringly carry out reform through to the end, China will have great prospects.

To take economic construction as the center, it is also necessary to open up wider to the outside world. The high development of division of labor in socialized mass production is, in essence, an open rather than closed economy. Breaking the restrictions of national boundaries and developing trade and exchanges between states is an objective requirement of socialized mass production. Some countries

with limited land area, inadequate resources, and a single-product economy have managed to score eye-catching achievements in development thanks to their efforts to enter world markets with their products and fully use their own resources. It can thus be seen that pursuing a policy of opening up to the outside world is of utmost importance to a country's development. Our country has a vast area and rich resources but is economically backward. One very important reason for this state of affairs is our long past seclusion from the world economy. After the PRC's founding, we tried hard to put end this state of affairs and gained some results but because we were hamstrung by internal and external conditions, the results were limited. It was only after the Third Plenary Session of the 11th CPC Central Committee that things thoroughly changed under the leadership of the party Central Committee with Comrade Deng Xiaoping as the core. During the dozen years or so since then, we have vigorously imported foreign funds, technology, equipment, and talent, energetically developed trade and economic relations with other countries, set up special economic zones and economic and technological development zones, and opened coastal areas and cities to the outside world, thus enabling China's economy to develop swiftly in its increasingly close relations with the world economy. Facts have proved that pursuing a policy of reform and opening up to the outside world is a wise decision which conforms to the realities in China.

The fundamental objective of taking economic construction as the key is to demonstrate on the basis of developed productive forces that socialism is superior to capitalism and to realize communism ultimately. Modern Chinese history has shown us that the capitalist or other road cannot solve China's development problem and only socialism can save the Chinese people from the abyss of misery and make China thrive and prosper. Therefore, Comrade Deng Xiaoping repeatedly exhorted the party: "Adhering to the socialist orientation while conducting reform is a very important question." "The four modernizations we are now striving for are socialist and not four modernizations of another nature. The purpose of the policies of opening up, invigoration [gan huo 2269 3172], and reform, which we are now pursuing, is to develop the socialist economy" (idem, p. 117, pp. 98-99). To adhere to the socialist orientation, we must have the Communist Party's leadership, arm ourselves with Marxism-Leninism-Mao Zedong Thought, and take the people's democratic dictatorship as the guarantee. In a word, we must uphold the four cardinal principles.

There have been differences and struggles in the question of whether or not the four cardinal principles should be upheld. After the "Gang of Four" was crushed, taking advantage of the situation in which our party was bringing order out of chaos and eradicating the "leftist" mistakes, some people spared no effort in highly praising Western "democracy" and "freedom," opposing the party's leadership, and favoring that China should take the capitalist road. Hence, there was an ideological trend favoring bourgeois liberalization. If the trend, which is highly harmful, is allowed to spread unchecked, it will create an extremely great confusion among the people, undermine society's stability and unity, and disrupt the efforts of the party and

the people across the country to wholeheartedly carry out construction. The 1989 political turmoil has fully proved this point. With the revolutionaries of the older generation, including Comrade Deng Xiaoping, at the helm, we have repeatedly checked the bourgeois liberalizations from spreading unchecked. In his current southern-tour talks, Comrade Deng Xiaoping once again warned the party that in the whole process of reform and opening up to the outside world, it should from beginning to end pay attention to upholding the four cardinal principles and opposing bourgeois liberalization. He said: The unchecked spread of bourgeois liberalization will have serious consequences. Attention should be paid to the very emergence of the signs of the development of bourgeois liberalization. Otherwise, things will go wrong.

To sum up, in carrying out socialist economic construction, it will not do not to reform and not to uphold the four cardinal principles. If economic construction—the center—is likened to a body, then the two basic points can be compared to the body's two wings. Only when the two wings are balanced can the body fly. If economic construction is likened to a ship, then the two basic points can be compared to the ship's power and navigation systems. Only when the two systems function normally can the ship sail along a correct direction with full speed. We should firmly bear in mind Comrade Deng Xiaoping's teachings, always take economic construction as the center, and have a firm and tight hold of the two basic points. To put it another way, we should comprehensively and accurately understand and implement the party's basic line.

Wittfogel's 'Mistakes' in *Oriental Despotism*

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[Article by Xie Lin (6200 2651), associate research fellow at the Institute of Philosophy under the Hebei Provincial Academy of Social Sciences: "Commenting on Wittfogel's *Oriental Despotism*"]

[Text] The book *Oriental Despotism*, written by Karl Wittfogel, expounds the nature of Oriental society and the origin and road of development of the state, calls the socialist system "a despotic system," and raises the so-called question of the "Asian restoration." The publication of the book in 1957 had a very great influence. In the new historical conditions, it is extremely necessary to fully understand the basic mistakes of Wittfogel's theory on "Oriental despotism" and its essence. This will help criticize the Western ideological trend against Marxism on the current theoretical front.

I. A Completely Wrong Theory of the Origin of Oriental States

In the book *Oriental Despotism*, with the "hydraulic [zhi shui 3112 3055] society" theory as the starting point, Wittfogel systematically expounded and argued the viewpoint asserting that hydraulic agriculture brought about the Oriental despotic system and his views on the state. He termed the social order under the "despotic system of agromanageial bureaucracy

[guan li ze 4619 3610 5074]" a "hydraulic society", regarded "Oriental society" and "Asian society" as synonymous phrases for "agromanagerial society" (Wittfogel, *Oriental Despotism*, 1989 Publishing House of the Chinese Academy of Social Sciences edition, Introduction, page 1. Remarks quoted from the book hereafter will be accompanied by the page numbers of the relevant quotations and no further notes will be provided. If remarks are quoted from the book's 'Introduction,' 'Preface' or 'Foreword,' respective notes will be placed in front of the page numbers), and then equated "Oriental society," "Asian society," "agromanagerial society," and "Asian modes of production" with "Oriental despotism." Considering himself to be the founder of the "hydraulic society" theory, Wittfogel expounded his key concept—"Oriental despotism"—with the "hydraulic society" theory as the basis.

He contended: Large-scale water-control undertakings and hydraulic agriculture call for cooperation, unified planning, extensive and complex organizational and planning work, and organizational networks spreading all across a country. The modes of social control are "the characteristics of large-scale hydraulic agriculture and Oriental despotism" (p 9). "This kind of water control system is the reason for the regional emergence of all agricultural despotic systems of great historical significance" (Introduction, p 14). "Apparently, all agricultural despotism stems, in reality, from the hydraulic society" (p 197). Therefore, proceeding from the theory of a "hydraulic society," he regarded water conservancy, irrigation, and flood-control agriculture as the reason for the emergence of the Oriental despotic system.

Wittfogel not only dealt with issues concerning the despotic system, forms of political power, and ruling modes, but in fact also expounded general theories on the formation and development of Oriental states. His viewpoints are untenable and wrong in terms of either the grounds on which he set forth his theory, the theoretical basis or the historical facts.

Wittfogel started proving his "Oriental despotism" theory with a distortion of the Marxist standpoint. He quoted passages of Marx's remarks: "Using man-made irrigation facilities of channels and water conservancy projects has become the foundation for Oriental agriculture." "In the Orient, because the level of education was too low and the area of its territory was too vast, it was impossible for a voluntary alliance to take shape, so the intervention of a centralized government was badly needed." (Footnote 1. *Collected Works of Marx and Engels*, Vol. 9, p 145) Wittfogel said: "Judging from this, according to Marx's formulation, the need for the state to manage water conservancy projects is the reason for the rise of Asian states" (p 392).

This explanation was an incorrect and complete distortion of Marx's standpoint and a confusion of the functions of the state with the emergence of the state, two issues of different natures. Immediately following the remarks quoted above, Marx added a sentence, which was deleted by Wittfogel, reading: "Therefore, all governments in Asia had to perform an economic function, namely, the function of undertaking

public projects" (Footnote 2. *Collected Works of Marx and Engels*, Vol. 9, p 145). Quite clearly, here Marx did not deal with the reasons for the rise of the state and he only said that the government "had to perform an economic function." Obviously, only when such a government exists can the economic function possibly be performed. The economic function of the government and the reason for the rise of the state are two entirely different things. Only after the state is born can it perform its economic function, but this kind of economic function cannot produce a state. Naturally, this does not mean that the rise of the state has absolutely nothing to do with the performance of the economic function. The emergence of the state is the inevitable outcome of the development of productive forces and the formation of private ownership and classes and the result of the development to a certain extent of society's economic and class relations. It is decided and checked by social, economic, political, historical, and other factors. If the rise of the state, an extremely complicated social and historical process, is attributed to the single factor of "the need for the state to manage water conservancy projects," this really means oversimplifying things a bit. This is on no account Marx's historical materialist thinking.

What actually is the relationship between the rise of the state and the performance of the economic function or the management of water conservancy projects? This is not a question that is difficult to clarify. History tells us: In the 21st century B.C., the Xia Dynasty, the first state under the slave system, was established in China. However, "in the documents before the Spring and Autumn Period (770-476 B.C.), there was nothing about man-made irrigation" (Footnote 3. Fu Zhufu, *Economic History of Chinese Feudal Society*, 1981 edition, People's Publishing House, Vol. 1, p 224). "it was not until the Zhou Dynasty that conclusive evidence about meticulously built irrigation projects could be found" (Footnote 4. Johnathan Haas, *The Evolution of Prehistoric States*, 1988 edition, Quishi Publishing House, p 132). The Zhou Dynasty was the third ancient state practicing the slave system in China after the Xia and Shang Dynasties. Before the early dynastic period, there had all along been no evidence for the existence of a large-scale irrigation system in southern Mesopotamia, but long ago, before that period, "there was here the initial development of the state"; on the Suxiana Plain there was also no "evidence of a large-scale irrigation system" in the early days of the formation of the state or before it (Footnote 5. Johnathan Haas, *The Evolution of Prehistoric States*, 1988 edition, Quishi Publishing House, p 131), and in Mexico, "some primitive states could be discovered, which came into being in the absence of irrigation" (Footnote 6. Johnathan Haas, *The Evolution of Prehistoric States*, 1988 edition, Quishi Publishing House, p 133). History has proved. In all places in the world, the state emerged long before the construction and management of water conservancy projects. The formation of the state and water conservancy and irrigation do not have any inevitable relation. Water conservancy and irrigation are not a prerequisite for the formation of the state. On the contrary, the formation of the state is a prerequisite for large-scale water conservancy and irrigation. Wittfogel's viewpoint is contrary to the historical facts and therefore it is theoretically untenable and wrong.

As early as 1853, Marx expounded the origin of the Oriental despotic system and of the state by proceeding with society's production relations, but Wittfogel intentionally avoided this point. Marx clearly pointed out: "The rural communes 'bearing the marks of caste differentiation and the slave system' 'have always been the solid foundation for the Oriental despotic system'" (Footnote 7, *Collected Works of Marx and Engels*, Vol. 9, p. 148). "Within the rural communes there exist the slave system and the caste system." "It is hard to imagine that the Asian despotic system and its stagnation have a more solid foundation than this one" (Footnote 8, *Collected Works of Marx and Engels*, Vol. 28, p. 272). Marx also expounded the formation of the Oriental despotic system and its characteristics from the British colonial rule and maintained that the European-style despotism was established by the East India Company of Britain on the basis of the Asian-style despotism and "the combination of the two despoticisms will become more terrible than the ferocious pictures and statues of gods in the (Saranda) [sa er sai da 364n 1422 6357 6671] Temple" (Footnote 9, *Collected Works of Marx and Engels*, Vol. 9, p. 144).

Proceeding from society's basic contradictions and the class relations within the socioeconomic system and by making a specific, historical analysis to India's rural communes, colonialism, and despotism, Marx profoundly brought to light the social base for the early Oriental states, the social base for the Oriental despotic system in the early Oriental states, and the dual character—class oppression and national oppression—of the integration of the Oriental despotic system and colonial rule in modern history, and also brought to light the general laws governing the Oriental despotic system and the origin of the state and the special laws governing Oriental society, thus laying the foundation for the historical materialist basic tenets concerning the state. This exposition by Marx shows that he did not regard the state's management of water conservancy projects as "the reason for the rise of Asian states." This was a clear and definite negation of Wittfogel's erroneous viewpoint on the origin of Oriental states.

II. The Unscientific Nature of the "Oriental despotism" Theory

Wittfogel's argument, with the "hydraulic society" as the basis and starting point for the Oriental despotic system and the origin of the state was wrong in theory. He appreciated very much his own view "of great significance." "That is, using a grand structural concept to judge a huge social structure and the pattern of change" (Preface, p. 24). The mistake of the "hydraulic society" theory lies in Wittfogel's intention of turning it into a structural conception, social type, and social ideology and of differentiating social ideology using the specific labor forms of flood control and irrigation, and in his classification of Oriental society as a society of this type. The basis on which he built this type of social ideology was unscientific, and his "Oriental despotism" theory was built on this erroneous theoretical basis.

Here there is the question of the viewpoints and standards with which to differentiate social ideology. There is a fundamental difference between us and Wittfogel on this

issue. "The difference between various economic periods lies in how and with what labor means to carry out production rather than what to produce" (Footnote 10, *Collected Works of Marx and Engels*, Vol. 23, p. 204). Production and labor activities, such as water conservancy, irrigation, and cultivation, existed in different forms and at different development levels in the various historical stages of human society. In the future, they will coexist for a long time and gain new development forms. The key to the question lies in how to "control water" and under what social conditions and social forms to "control water" rather than whether or not "water is controlled." We should not differentiate social ideology with specific labor activities, just as we cannot determine the value of a commodity with specific labor. Only with "the special method and means of integrating" (Footnote 11, *Collected Works of Marx and Engels*, Vol. 24, p. 44) laborers and production means and by proceeding from the sum total of production relations can social ideology be classified scientifically. Only production relations can reflect society's essential characteristics, determine its nature, and classify social ideology into different types. Specific labor activities cannot bring to light society's essential regularities and essentially differentiate one society from another. Therefore, they cannot be used to classify social ideology.

Wittfogel was studying a "hydraulic society" but he did not understand what "society" was and the historical materialist truth that "the sum total of production relations forms the so-called social relations and the so-called society" (Footnote 12, *Collected Works of Marx and Engels*, Vol. 6, p. 487). If the "hydraulic society" theory is tenable theoretically, similarly, can we not divide human society into "porcelain-making society," "smelting society," and "construction society" according to various different social labor activities? Nevertheless, this way of doing things absolutely cannot reflect the essence of human social development.

Wittfogel's theory on "Oriental despotism" is unscientific. Excluding social, historical, and class factors, he regarded the natural factors and conditions, such as irrigation agriculture and flood-control agriculture, as the basis of the despotic system and the origin of the state. This landed him in a contradiction and a predicament. We want to ask: Now that all kinds of agricultural despotism "were the products of hydraulic society" (p. 197), why did the despotic system, as he firmly believed, not emerge in some Asian and European countries which had very developed water conservancy projects and irrigation undertakings? At different development stages, why did sometimes an despotic system emerge and sometimes a democratic system emerge in one and the same country? Could their natural conditions and hydraulic agriculture have undergone changes? Since China developed irrigation agriculture, it has experienced all kinds of social formations, including slave society, feudal society, semifeudal and semicolonial society, and socialist society. How should this fact be explained? Can such complicated social and political historical phenomena be explained using just a single natural factor? Meanwhile, he was also unable to explain the further development and future withering away of the state. Now that the state rose alongside the

emergence of water conservancy, irrigation, and flood-control agriculture, so long as there are water conservancy, irrigation, and hydraulic society, there must be the state. According to his assumed causality, people have reason to raise this question: In the future communist society where exploitation and classes are already wiped out, water conservancy, irrigation, and flood-control agriculture will, undoubtedly, continue to coexist and further develop, and will the state then continue to exist, develop, and be strengthened? Wittfogel gave and was also unable to give any answer to the question. If we act according to the logic of the "hydraulic society—Oriental despotism" theory, we will surely come to an absurd conclusion.

The basic mistake of Wittfogel's theory on "Oriental despotism" lies in its failure to genuinely understand the relationship between the material base and the superstructure and go beyond the old vulgar materialist view. "The particular form of material production has resulted in, first, a particular social structure and second, a particular relationship between man and nature. The two decide people's state system and spiritual modes." (Footnote 13: *Collected Works of Marx and Engels*, Vol. 26, Book One, p 296) However, material production cannot directly decide society's superstructure and it can do so only through an intermediary link—the total sum of production relations, namely, the economic base. Water conservancy projects and hydraulic agriculture are productive labor through which mankind transforms nature. All production is the possession of nature by people as individuals in a particular social form with which they strive for such possession. Only within particular social production relations can there be a relationship between people and nature and can there be production. Only when we make a concrete and historical analysis of the specific form of production relations can we expound the origin, nature, and development of the state system.

Marx held: The special economic form of surplus labor extorted directly from laborers decides the relationship between the ruler and the subordinates. In the relationship between the owners of production means and the direct laborers, he always "tried to find out the most-hidden secret and the concealed base for the whole social structure, also for the political form characterized by sovereignty and relations of subordination, in a word, for any unique state forms in that time" (Footnote 14: *Collected Works of Marx and Engels*, Vol. 25, pp 891-892). With this historical materialist viewpoint and method, Marx studied the formation of the Oriental despotic system based on the rural communes' production relations and the origin of the state, expounded the rural communes' social production relations, "which are based either on the basis of individuals who have not matured and whose umbilical cord of the natural blood relationship with others has not been severed or on the basis of the relationship between direct rule and relations of subordination" (Footnote 15: *Collected Works of Marx and Engels*, Vol. 23, p 96), summarized the special form of possession of surplus labor in the Asian modes of production into the "relationship of tax contribution" and that "the state that receives the contributions is the owner of the products," (Footnote 16: *Collected Works of Marx and Engels*, Vol. 25, p 364), and that "the state is the supreme

landlord," "sovereignty is centralized land ownership on a national scale," "land rent and taxes become one," and "sovereign rights are centralized land ownership on a national scale" (Footnote 17: *Collected Works of Marx and Engels*, Vol. 25, p 891), and discussed and proved that the combination of this relationship of tax contribution and the despotic system profoundly showed the inevitability of the Oriental despotic system being built on the basis of the Asian rural communes' production modes and its economic and political contents and characteristics. This was the model of Marx's study of the structure of Oriental society and the state political system by applying the historical materialist theory. Only when we follow Marx's historical materialist basic tenets and proceed from society's economic base, namely, the sum total of production relations, can we scientifically explain the origin of the state and the nature, characteristics, and differences and similarities of laws and political systems of Oriental and Western societies and substantially bring to light the laws governing the development of social formations as a whole.

"The state is nothing but an apparatus with which a class suppresses another class" (Footnote 18: *Collected Works of Marx and Engels*, Vol. 22, p 228). However, Wittfogel obliterated the class nature of the state. He contended: "The state means a government managed by professionals" (p 97). Proceeding from this abstract, supra-class, and non-class outlook on the state, he can neither genuinely explain "the despotic regime is a totalitarian and not a benevolent power" (p 97), nor genuinely conduct a substantive "comparative study" of "the absolute regime and the totalitarian regime" (Preface, p 25). After he came across countless contradictions that he could not explain and failed to make his arguments consistent, he had to announce his theory on the origin of Oriental despotism to be only "a possibility and not an inevitability" (p 2), that "the degree of water resources does not necessarily lead to government control over water conservancy, and at the same time, government control over water conservancy does not necessarily mean adopting despotic state management means" (p 3). Such being the case, why should Wittfogel propagate again and again that all forms of despotic agriculture "stem from the hydraulic society" (p 197)? Did he not feel that he was contradicting himself?

III. The Core and Essence of the "Oriental despotism" Theory Is Opposition to the Socialist System

The framework of Wittfogel's Oriental despotism theory is composed of three important elements, that is, the typical doctrine that geographical conditions alone decide everything, a strong sense of power politics, and a clear antisocialist position. The book *Oriental Despotism* is thus characterized by the combination of the three elements.

The tendency of the doctrine that geographical conditions alone decide everything in the "Oriental despotism" theory is quite evident. Wittfogel maintained: "If the system's conditions are the same, then the difference in natural conditions will promote and allow—or hinder—the development of new forms of technology, survival, and social control" (p 1). "When historical conditions are the same, major natural differences may possibly lead to decisive

system differences"; and "the natural structure has a decisive impact on the behaviors of people who provide grain and organize human relations." (p. 3) This viewpoint of natural differences causing system differences and of hydraulic agriculture deciding the Oriental despotic system stemmed from Montesquieu. Although Wittfogel and Montesquieu expounded different issues in different epochs, from their statements we can see one common point. They excluded the social element and explained political systems, the origin of the state, and social phenomena with natural elements—natural and geographical conditions. This is in fact a one-sided doctrine that geographical conditions alone decide everything.

A strong sense of power politics is the important characteristic of the "Oriental despotism" theory. Wittfogel had his own unique view on the state. He said: "The control over a specific region is considered a basic characteristic of the formation of the state." (p. 247) He divided "hydraulic society" into three types with political standards. As he saw it, in a core hydraulic region, the intensity of water control is an important method for measuring the intensity of the system, the marginal regions [bian yuan di qu 6708 4878 0966 0575] of hydraulic society can be defined so long as their superior position has been established organizationally and politically, and the places that "exhibit stray features of hydraulic statecraft form the sub-marginal regions [ci bian yuan di qu 2945 6708 4878 0966 0575] of the hydraulic world" (p. 199). Thus, by using triple standards, he managed to incorporate the countries and regions with different social natures and different historical development stages into "hydraulic society" and the category of "Oriental despotism." When dealing with "hydraulic society's" ownership issue, he particularly stressed: "There is a special tendency developing in the direction of the dominance of political assets based on power" (p. 247). This viewpoint completely inherited and developed Duhring's sense of power politics. Duhring's viewpoints concerning "the formation of political relations is a historical matter of fundamental importance and economic dependence is just a result" and "it has always been a secondary fact" (Footnote 19, Duhring, *A Course in Philosophy*, 1991 edition, Commercial Publishing House, p. 502) were fully expressed and specifically applied in Wittfogel's "Oriental despotism" theory. Montesquieu's doctrine that geographical conditions alone decide everything and Duhring's sense of power politics were combined in Wittfogel's work. This is a strange phenomenon.

The political position and ideology against the socialist system of the "Oriental despotism" theory are quite distinctive. Why did Wittfogel write the book *Oriental Despotism*? He stated very clearly: "There is no reason to let the enemy do whatever it likes. There is no reason to let the totalitarian strategists show off their dogmas in the domain which should belong to us and also no reason to let them win victory on the ideological front in our absence"; "one cannot go into battle empty-handed." (Introduction, p. 22) Who is actually the "enemy" he referred to? It is self-evident. It was for the sake of "going into battle" and opposing Marxism and socialism that he wrote the book.

Wittfogel groundlessly vilified the socialist system as a slave system. He told people: By using the term "hydraulic," he

meant to "draw attention to the agrimanerical and agribureaucratic character of these civilizations" (Introduction, p. 13), that his book "attempts to define the characteristics of the non-Western, semi-manerical system of despotic power, interprets communist totalitarianism as a total manerical, and much more despotic variant of the system of despotic power" (Preface, p. 24). This is the most important reason the Western world praises the book highly and also the central idea of the book. He maintained: "The revolution of the communist party can be considered an organizational revolution," which is "the essential part of the Asian concept" of the book *Oriental Despotism* (Foreword, p. 58). To put it another way, as he saw it, the proletarian revolution led by the communist party was just a dynasty-change, formal revolution rather than a profound socialist revolution aimed at wiping out exploiting classes and the system of exploitation. Accordingly, he slandered the Russian October Revolution as "resulting in an industry-based, universal (state) slave system," and smeared what the Chinese revolution established as "a kind of agricultural despotism," "which is very similar to China's past huge despotic system" (p. 467). He insisted on not calling "Communist Russia and Communist China" "socialist countries" and indiscriminately termed them so-called "despotism" (p. 471). He vilified the socialist system as an despotic system, a bureaucratic system, and a slave system. This was the purpose and political objective of Wittfogel's book *Oriental despotism*.

Wittfogel propagated again and again the so-called "Asian restoration," maintaining that after the October Revolution, Lenin developed an "anxiety about the inevitable retrogression of the Russian Revolution," and that "the restoration of the Oriental despotic system is the revolutionary terrible secret which Lenin hoped for and wanted to realize" (Foreword, p. 31). This is a complete fabrication. What was he aiming for in clamoring about the "Asian restoration" in such a frightening way? As I see it, he wanted to obliterate the fundamental difference between the proletarian socialist revolution and the bourgeois revolution. In his opinion, the Russian and Chinese revolutions gave rise to "the new form of the Oriental despotic system and not socialism" (Preface, p. 31). Therefore, they were a form of "restoration." He completely distorted the Russian and Chinese revolutions, obliterated their genuine "secret"—replacing bourgeois democracy with proletarian democracy and bourgeois dictatorship with proletarian dictatorship. On the other hand, he called for capitalism for Oriental society. He said: "Only when the level of industrial civilization based on private property is not achieved can mankind, which has a special reaction to an environment short of water resources, advance toward a special hydraulic life order." (p. 3) "Private ownership is a crucial necessary condition for overcoming the Asian society where the state monopolizes power" (p. 47). It can thus be seen that, in the final analysis, he wanted to explain the formation and restoration of Oriental despotism as capitalist industrial civilization not being achievable, and regarded capitalist private ownership as a necessary condition—means with which to overcome the Asian restoration—called for capitalism for Oriental society so that it "can

turned into a Western-style, multicenter society" (p. 234). This thinking of his is all too clear.

This is the road Wittfogel designed and pointed out for Oriental society, a road which is diametrically opposed to Marx's development theory that Oriental society is noncapitalist. "Where should Asia go?" (p. 469) The revolutionary practice of the people in the Orient has given and will continue to give a reply contrary to Wittfogel's wish.

Has what Wittfogel expected come true? The twists and turns in contemporary history seem to be the fulfillment of

his notion of "restoration." However, "more often than not, history advances in a leaping and tortuous way." (Footnote 20: *Collected Works of Marx and Engels*, Vol. 13, p. 532) From the viewpoint of history in a larger sense, these twists and turns are nothing but minor billows in the course of world history.

After reading the book *Oriental despotism*, I would like to summarize my impressions and appraisal into one sentence. It is precisely Wittfogel himself, and not Marx, Engels, and Lenin, who "retreated in the face of the truth" (p. 399).

National Affairs, Policy

Article on Financial Predicament of Firms

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[Article by Tang Zongkun (0781 1350 3540): "Profit Transfer in State-Owned Enterprises and Enterprise Reproduction Capacity"; written in May 1992]

[Text] The aim of this article is to analyze the relationship between profit transfer in state-owned enterprises in our country and enterprises' funds situation, as well as the relationship between this and enterprise reproduction capacity. The data used for the analysis are for the period 1980 to 1989 from 769 state-owned industrial enterprises in Sichuan, Jiangsu, Jilin and Shanxi, which were subject to a sample survey in 1990 by the "State-Owned Enterprise Reform and Efficiency Group" of the Economic Research Institute under the Chinese Academy of Social Sciences. Where necessary, additional survey data from the State Statistical Bureau and other departments and localities is cited in the footnotes as further evidence.

1. The Net Output Rate in Gross Industrial Output Value Has Declined

The basis of profit distribution is the distribution of net output value, and the production of net output value is the basis of the distribution of net output value. Thus, this analysis will begin by analyzing the proportion which the net industrial output of the sample enterprises constitutes in gross industrial output (the net output value rate).

Seen overall, the net output value rate of the sample enterprises saw a decline in the 1980's. However, seen in terms of stages, prior to 1984, the basic trend was upwards, while from 1985 on there was a sustained decline. The figure for 1984 was 1 percent higher than the figure for 1980, while the figure for 1989 was 3.2 percent down on the 1984 figure. If we calculate on the basis of net output value constituting 30 percent of gross output value (Footnote 1—The net output value rate for the sample enterprises fluctuated between 29.5 percent and 32.7 percent over the period 1980 to 1989. Also, according to the figures in the 1991 *Statistical Yearbook of China*, during the period of the Seventh Five-Year Plan, the average net output value rate for national industry, including all economic sectors, was 29.3 percent), this is equivalent to a reduction in the absolute volume of net output value over that period of 10.67 percent (3.15 percent). A decline in the net output value rate means that under conditions where the profit portion of net output value distribution does not change, profits see a relative decline.)

A decline in the net output value rate means a rise in the proportion of material consumption in respect of gross output value. Factors which influence the latter include changes in economic efficiency, sectoral structure, and technological conditions. Here, the data being used for comparison are figures from similar sized sample enterprises and thus the sectoral structure during this period would have been quite stable, and the changes in technological conditions tended to be ones which economized on material

consumption. Thus, we can hold that the decline in the gross output value rate was mainly the result of a decline in economic efficiency.

2. The Basic Direction of the Flow of Profit Erosion in Primary Distribution of Net Output Value

The primary distribution of gross industrial output value of the sample enterprises was as shown in Table 1.

Table 1—Primary Distribution of Net Industrial Output Value

	1981	1982	1983	1984	1985
	(Unit: Percent)				
Profit on Sales	46.23	47.58	48.63	47.53	43.29
Taxes on Sales	24.37	24.68	22.90	22.20	25.06
Interest	2.13	2.01	2.90	3.11	3.88
Total Wages	26.28	19.92	18.25	18.50	20.47
Other Expenses	4.90	4.74	5.61	6.43	7.21
Total	97.51	99.93	98.29	97.77	99.91

(Cont'd)

	1986	1987	1988	1989
Profit on Sales	37.55	37.49	37.78	33.03
Taxes on Sales	23.72	24.27	24.68	24.89
Interest	4.77	5.31	5.84	9.24
Total Wages	22.56	21.58	22.61	24.70
Other Expenses	8.32	8.61	8.65	8.80
Total	98.72	97.26	99.16	100.16

Table 1 provides us with the following information:

1. The situation of change in net output value distribution displays a phasal characteristic in the three items of profit on sales, taxes on sales, and total wages. Prior to 1983, the proportion which profits on sales constituted in net output value saw a rising trend, and in 1983 the figure was 2.4 percentage points higher than 1981. However, the proportion which taxes on sales and total wages constituted in respect of net output value saw a declining trend, declining 1.5 percent and 2 percent respectively over the same period. From 1984, the situation was reversed, with the proportion of profits on sales obviously declining. The 1986 figure was 15.6 percentage points lower than the 1983 figure. Meanwhile, the proportions of taxes on sales and total wages saw a fluctuating but rising trend, with them growing by 1.8 percent and 6.5 percentage points respectively over the same period.

2. The proportion which interest and other consumption funds constituted in net output value saw a sustained year-by-year increase, which displays no characteristics of phasal change. However, the trend of growth in the interest component after 1984 was more marked than for the period up to 1983. The 1983 figure was 0.8 percentage points higher than 1981, while the 1989 figure was 6.3 percentage points higher than the 1983 figure.

3. If we compare the 1989 figures with those from the 1986-1988 period, we can see marked changes in 1989. In 1987 and 1988, apart from the interest proportion growing one percentage point and tax on sales declining one percentage point over the two years, the other proportions remained relatively stable at 1986 levels. However, in 1989, the profits on sales proportion fell 4.8 percentage points compared with 1988. In the same period, the proportions of interest and total wages shot up by 3.4 percent and 2.1 percentage points respectively. Tax on sales and other consumption funds were basically stable or saw a slight increase. The changes which occurred in 1989 were clearly connected with the environment of macroeconomic tightening in that year, as we entered a period of economic improvement and rectification. Under pressure from the two forces of slow funds circulation and the great increase in credit interest rates (Footnote 2—There were two increases in bank credit interest rates in August 1988 and February 1989.) However, relatively speaking, the main reason for increases in enterprise interest expenditure was the growth in their use of credit. The increase in the interest rate was only a secondary factor which resulted in a great increase in the interest burden on enterprises. The labor system with its rigidity of employment also meant that enterprises which had reduced production or had even stopped production due to economic tightening had no way to cut staff, which in turn resulted in a relative increase in wage costs.

4. If we look vertically at the changes over the entire period from 1981 to 1989, we can observe the basic trends of profit erosion in the process of the primary distribution of net output value. If we compare 1988, when the amount distributed had been quite stable for two years, and 1989, when the amount distributed saw dramatic change, with that in 1981, we can see that the amount of profit on sales in 1988 was down 8.5 percentage points as compared with 1981. Over the same period total wages and interest figures rose 2.3 percentage points and 3.7 percentage points respectively. Profits on sales in 1989 were down 13.2 percentage points as compared with 1981, while total wages and interest were respectively up 4.4 and 7.1 percentage points. Taxes on sales in 1988 and 1989 were about the same level as in 1981.

This comparison shows that the rise in the amount of interest paid has become an important factor in promoting the decline in profits on sales. Seen from the entire 1980's, although there was an increase in total wages as a percentage of net output value, the increase in interest was clearly greater than the rise in total wages. In the present situation where state-owned enterprises still basically rely on state banks for their funds, the increase in interest paid by enterprises means an increase in state income. If we jointly calculate the increased interest payments with basically stable taxes on sales, we can see that the increase in the state's income has been greater than the increase in total wages. Thus, if we talk in terms of the relationship between individual staff and workers, we cannot simplistically come to the conclusion that the primary distribution of net output value has been slanted towards individuals. If the growth or decline of the relative positions of profits on sales and total wages in net output value can be said to one of "wages eating

up profits," then it is even more appropriate to note that the more swiftly growing interest component shows that "interest is eating up profits." Further, if we note that interest in the base period (1981) was just one-tenth of total wages, we can clearly see that the swift rate of increase in interest payments has been way ahead of all else. Leaving aside the dramatic changes which occurred in 1989 due to entering the period of economic tightening, if we just compare 1988 with 1981, the rise in total wages of 2.3 percentage points was only one-eighth of the base figure of 20.1 percent, while the 3.7 percent rise in interest payments constituted an increase of 1.8 times.

At the same time, when looking at the relative position of total wages in net output value, there are three factors which cannot be ignored. First, our country has long implemented a low-wage policy, and prior to reform, wages had been frozen for over 10 years. Thus, the rise in the relative position of total wages in the distribution of net output value can to some degree be seen to be compensatory in nature. Seen from the sample enterprises, total wages in 1986-88 were only slightly over one-fifth of net output value, while in 1989 the figure did not reach one-fourth. Second, since the reforms (and especially in the last few years) individual consumption items originally reliant on state subsidies are now gradually being included in total wages. Third, the disparity where the wages of staff and workers in state-owned enterprises is clearly lower than those in "the three types of enterprises which are partly or wholly foreign-owned" and even some township and small town enterprises, which has appeared since the beginning of the reform and opening up and now poses a potential and even real threat to the stability of technically skilled workers and outstanding engineering and technical personnel in state-owned enterprises. (Footnote 3—According to a survey of 10 Beijing-based large and medium machine-building enterprises conducted by the Beijing Municipality Labor Exchange Center, although these enterprises have in recent years adopted measures to control the outflow of mechanical processing workers, in 1989 and 1990 they saw a net outflow of 755 mechanical processing and technical workers, such as lathe operators, fitters, machine operators, planing machine operators, and grinding machine operators. At the time of the survey, their shortfall of mechanical processing workers had reached 20 percent. See JINGJI CANKAO BAO of 24 Dec 1991.) At the same time, as the situation where enterprises cannot make arrangements for their surplus personnel widely exists, skilled technical personnel are, in spite of enterprise controls, leaving enterprises. This phenomenon reveals to us a small but significant signal, and that is that the contradictions in the labor system, which were concealed in the past by the situation where the state-owned economy constituted the whole economy, are today in a situation where diverse economic components coexist and there is a competitive environment. This shows that the labor and wage systems in state enterprises have reached a stage where they have to be reformed.

As for the "other expenses" item, its contents are quite complex. It includes the normal nonconsumption and non-wage production and sales expenditure of enterprise, and also

includes arbitrary charges, fines, and levies imposed externally and extraordinary "support" expenditure under the name of advertising or similar made by the enterprise. (Footnote 4—According to a survey by the Anhui Provincial Industrial and Commercial Association, the total expenditure on levies and "support" expenditure by state enterprises in the province over the three years 1987-1989 was equivalent to 20.7 percent of profits handed in over the same period. See ZHONGHUA GONGSHANG SHIBAO of 11 Dec 1991.) Also, a survey of seven enterprises in Hefei City conducted by the Anhui Provincial Economic Committee found that 90 percent of levies paid by these enterprises were levies imposed by government departments. Of the total levies, 66.9 percent were paid from enterprise costs, 29 percent were paid from income from sales, 3.2 percent were paid from enterprise retained profits, and 0.9 percent were paid from extra operational expenditure. (See ZHONGHUA GONGSHANG SHIBAO of 30 March 1991.)

Unfortunately, the figures from the sample enterprises cannot be further divided and thus we cannot see how much each of these two different expenditures constitute. However, regardless of what constitutes it, growth in this item means that there has been profit erosion from fixed net output value. From Table 1 we can see that other expenses in 1988 and 1989 were 4 percentage points up on the 1981 figure, and in terms of the rate of increase was second only to growth in interest payments.

3. The Transfer of Profits Between Enterprises and the State

The above analysis shows the erosion or transfer of profits in the process of profit formation. (Footnote 5—The above analysis does not touch on the concealed deficits and losses which are now widespread in state-owned assets but which the accounts do not reveal. According to a survey of 10,508 state-owned industrial production enterprises conducted by 40 branches of the Commercial Bank of China, 6625, or 63 percent, of the surveyed enterprises had concealed deficits or losses, equivalent to 1.96 times the number of enterprises which had losses recorded in their accounts. Up to the end of June 1990, off-the-books deficits and losses totalled 10.83 billion yuan, equivalent to 1.72 times the listed losses of the surveyed enterprises. See 1991 *Financial Yearbook of China* p 529) Now let us begin to analyze the distribution of profit itself.

From profits on sales we need to deduct extra-operational net expenditure and other expenses to obtain the realized profits. The difference between realized profits and profits on sales in the distribution of enterprise net output value is shown in Table 2.

Table 2—The Proportion of Net Output Value Constituted by Profits on Sales and Realized Profits (Unit: Percent)

Year	1981	1982	1983	1984	1985
Profits on Sales (1)	46.23	47.38	48.63	47.33	43.29
Realized Profits (2)	43.00	41.82	46.25	44.42	40.68
(1)-(2)	3.23	5.56	2.38	2.91	2.61

(Cont'd)

Year	1986	1987	1988	1989
Profits on Sales (1)	37.35	37.49	37.78	33.03
Realized Profits (2)	32.94	32.72	34.10	27.32
(1)-(2)	4.61	4.61	3.68	5.71

Table 2 shows that apart from a few years, the basic trend was one where prior to 1985 the difference between realized profits and profits on sales saw a small decline, but from 1986 on, at the same time as a clear decline in the amount which profits on sales constituted in net output distribution, there was an expansion in the differential between realized profits and profits on sales. That is to say, realized profits as a proportion of net output value declined faster than profits on sales. This exacerbated the erosion of profits. The main reason for the expansion of this differential was inflation in extraoperational expenditure. (Footnote 6—According to a survey of seven medium-sized and large enterprises in Wuhan City conducted by the Industry and Communications Office of the State Statistical Bureau, in 1985, the proportion of extraoperational expenditure to profits on sales in these enterprises was 14.1 percent, while by 1989 it had risen to 41.9 percent. Reasons for the increase in extra-operational expenditure included: 1) The number of staff and workers retiring from old enterprises increased. 2) Medical costs had shot up. 3) There were an increasing number of levies and "support" charges. See ZHONGHUA GONGSHANG SHIBAO of 7 September 1991.)

The distribution of realized profits between the state and enterprises is shown in Table 3.

Table 3—The Distribution of Realized Profits (Unit: Percent)

Year	1981	1982	1983	1984	1985
Handed Up to the Financial Administration	63.51	67.87	66.64	62.49	59.98
Profits Retained by Enterprise	15.70	18.18	22.66	25.80	28.99
Repayment of Credit Prior to Tax for Specific-project Credit	6.10	7.49	6.75	8.96	13.07
Total	85.31	93.54	96.05	97.25	102.04

(Cont'd)

Year	1986	1987	1988	1989
Handed up to the Financial Administration	59.85	53.13	45.80	46.33
Profits Retained by Enterprise	33.20	33.64	38.74	42.92
Repayment of Credit Prior to Tax for Specific-project Credit	17.55	22.44	25.05	28.52
Total	110.60	109.21	109.59	117.77

Table 3 shows that over the years there has been a sustained upward movement in the percentage of realized profits retained by enterprises. With a few minor fluctuations, the percentage handed up to financial administration has seen a

downward trend. However, at the same time as the proportion being handed up to the financial administration declined, there was, except in 1983, a sustained increase in the proportion of credit repayments prior to taxation for specific credit employed by enterprises for fixed asset investment. It is worth noting that from 1985 onwards the total of the three items exceeded 100 percent; that in the years 1986 to 1988, the total figure was about 10 percent over 100 percent, and in 1989, the total exceeded 100 percent by 17.77 percent. This excess figure shows that part of the repayment of credit prior to taxation was only repayment "prior to taxation" in terms of tax base calculations. Actually, credit was repaid using the enterprises' post-tax retained profits or depreciation funds. Thus we cannot, from the rising trend of enterprise retained profits reflected in Table 3, unanalytically come to the conclusion that enterprises are quite well off in terms of financial resources they are able to actually expend. Furthermore, the rise in retained profits as a proportion of realized profits has occurred in a situation where there has been a very great decline in the proportion which realized profits constitute in net output value. Thus, the proportion which retained profits constituted in net output value rose from 6.7 percent in 1981 to 11.5 percent in 1984 and to 11.8 percent in 1989, which was far less obvious than the rise in the proportion which enterprise retained profits constituted of realized profits, and in 1989 they were basically at the same level as in 1984.

At the same time, if we compare growth in enterprise retained profits with growth in taxes on sales, we will discover an interesting phenomenon. If we take as the base year 1984, the year when tax system reform and the second step of the "replacement of profit delivery by tax payments" were implemented, in 1988, taxes on sales and enterprise retained profits were respectively 1.95 times and 2.03 times their 1984 figures. In 1989, they were respectively 2.19 and 2.0 times the 1984 figure. Although there had been no arrangements to achieve this, the growth in enterprise retained profits and taxes on sales were basically synchronic.

4. Enterprises' Retained Profits and Credit Repayment Capacity

In the section above we only looked at pre-tax credit repayment for specific-project credit, but there is also post-tax credit repayment for specific-project credit. Pre-tax credit repayment already uses some of the production development funds formed through retained profits, while post-tax credit repayment relies to an even greater degree on production development funds. It might be an idea for us to estimate the amount of production development funds used by these two forms of credit repayment.

As the data from the sample enterprises do not provide detailed figures on the funds source for credit repayment, we are for the moment assuming that the differential between pre-tax credit repayment and the pre-tax profits used to repay credit, as well as the entirety of post-tax credit repayment for specific-project credit, are met from production development funds. (Footnote 7—As far as the financial resources which enterprises themselves can control, apart from production development funds, only depreciation funds can be used to repay specific-project credit for fixed asset investment. However, using depreciation

funds to repay credit is just eating one's future resources.) The result of the calculations is that the proportion of production development funds which these two forms of credit repayment used was as follows: In 1985, it was 31.44 percent; 1986, 87.18 percent; 1987, 83.27 percent; 1988, 70.38 percent; and 1989, 101.91 percent. We can see that from 1986 to 1988, the repayment of specific-project credit used up a large part or a very large part of production development funds retained in that year. In 1989, even the entirety of the production development funds were insufficient to repay the principal and interest of specific-project credit.

Apart from specific-project credit, enterprises also used bank capital construction credit, financial circulating funds credit, the issuance of enterprise bonds, credit from foreign banks, and loans from other enterprises in order to fund their investment in fixed assets. According to figures up to 1989, the major item was capital construction credit.

Now let us compare just the annual net increase in outstanding amounts of bank credit used by the sample enterprises in fixed asset investment with the amounts retained by the enterprises in that year as product development funds. Here, outstanding bank credit includes capital construction credit and specific-project credit, but does not include foreign bank credit (the amount of which is not great). The comparison can be seen in Table 4.

Table 4—Outstanding Bank Investment Credit and Production Development Funds (Average Value of Sample Enterprises)

	(Unit: 10,000 yuan)				
Year	1980	1981	1982	1983	1984
End of Year Balance of Outstanding Bank Credit Used for Enterprise Investment (1)	42.39	70.71	97.26	121.11	385.80
Net Growth on Previous Year (2)	-	28.32	26.55	23.85	264.69
Production Development Funds					
Extracted in Current Year (3)	13.24	15.49	19.29	27.15	30.88
(2)/(3)	-	1.83	1.38	0.86	8.57

(Cont'd)

Year	1985	1986	1987	1988	1989
End of Year Balance of Outstanding Bank Credit Used for Enterprise Investment (1)	448.33	576.37	776.20	1001.77	1230.48
Net Growth on Previous Year (2)	62.53	128.04	199.83	225.57	228.71
Production Development Funds					
Extracted in Current Year (3)	42.53	49.60	65.88	110.58	111.75
(2)/(3)	1.47	2.58	3.03	2.04	2.05

From Table 4 we can see that the net growth in the outstanding balance of bank credit used by enterprises for investment in fixed assets (capital construction and specific-project credit) was, in every year except 1983, in excess of the production development funds which enterprises extracted from retained profits in those years. In the years 1986 to 1989, the figures were one to two times higher, while in 1984, the growth in outstanding credit was over seven-and-one-half times the production development funds extracted in that year. (Footnote 8—The unusual situation in 1984 was possibly related to the fact that, in the fourth quarter of that year, the state decided that in 1985 there would be overall implementation of the "replacement of funds allocation by the provision of credit" and various specialized banks vied to provide credit in advance). At the end of 1989, the average amount of outstanding credit of each enterprise was 12.3048 million yuan, 2.53 times the 4.8639 million yuan which was the cumulative figure of production development funds extracted over the 10-year period 1980-89. That is to say, even if the production development funds extracted over those 10 years had not been used up and were collected together in their entirety, they would only be sufficient to repay 40 percent of the outstanding debt in 1989. Further, as has been noted above, the repayment of specific-project credit, apart from using pre-tax profits, uses up a large part or very large part of the production development funds extracted. Thus, the existing outstanding credit balance can only be repaid using future pre-tax profits and production development funds. Calculating on the basis of realized profits, pre-tax credit repayments, and the level of production development funds in 1989, even if there was no further credit taken out (of course this cannot happen), if we jointly calculate the amount of pre-tax credit repayment and the entirety of production development funds, it would take about eight years to pay off the principal of the outstanding credit in 1989. If we stopped pre-tax repayments of debt and used all production development funds to repay the debt, it would take 11 years to pay off this amount. If we add interest to the calculations, it would take an even greater number of years. In addition, we must, naturally, not forget what has been noted above: that there are other types of liabilities incurred through investment in fixed assets.

This article has still not yet touched on the question of enterprise circulating fund debt. In 1989, the debt rate as a proportion of all circulating funds in the sample enterprises had reached 88.9 percent, and from 1980 to 1989 there was sustained growth in this figure in every year without exception. Through reference to the above-noted situation in respect of the repayment of fixed asset investment credits, even if we exclude temporary turnover circulating funds, we can affirm that enterprises themselves have no source from which to meet liabilities incurred for the long-term circulating funds needed for regular turnover.

Under the conditions of a market economy, it is not strange for enterprises to operate with debt. The problem is whether or not enterprises have the capacity to repay debt. However, the situation of our country's state-owned enterprises is one where, on the basis of the existing asset-liability structure

and profits distribution structure, there is no way that enterprises will ever be able to repay their debt.

5. The Use of Retained Enterprise Profits

People naturally may ask whether or not there is the possibility of raising the percentage of production development funds extracted from retained profits, thereby increasing the capacity of enterprises to repay debt. It might be a good idea for us to look at the situation in respect of the use of retained profits by enterprises (See Table 5).

Table 5—The Distribution of Enterprises' Retained Profits

	(Unit: Percent)				
Year	1981	1982	1983	1984	1985
Production Development Funds	38.96	40.56	36.80	33.09	40.50
Staff and Workers' Welfare Funds	40.68	35.23	23.25	22.41	23.70
Staff and Workers' Incentive Funds	26.35	27.97	33.64	35.84	26.40
Reserve Funds			10.38	10.20	10.08
Total	105.99	103.76	104.27	101.54	100.68

(Cont'd)

Year	1986	1987	1988	1989
Production Development Funds	46.41	50.18	58.20	59.91
Staff and Workers' Welfare Funds	21.01	22.43	23.76	23.92
Staff and Workers' Incentive Funds	25.24	19.40	13.44	12.81
Reserve Funds	9.55	8.49	5.95	7.17
Total	102.21	100.50	101.35	103.81

Note: The total figures are slightly over 100 percent. Apart from possible statistical error, it is also possible that this results from the fact that when sample enterprises were filling in the "Staff and Workers' Welfare Funds" figures, they did not deduct that portion of staff and workers' welfare funds extracted as a proportion of total wages.

Table 5 shows that between the years 1981 and 1984, there were quite major fluctuation in the proportion which production development funds constituted in the use of enterprise retained profits, but from 1985 on there were sustained rises. In 1989, the figure was almost 60 percent, which is not a small proportion. There was a decline in the proportion used for reserve funds, but the proportion constituted by the total of production development funds and reserve funds saw an annual rise of 3 to 7 percentage points from 1985 on. Staff and workers' welfare funds saw a decline from 1981 to 1986 and only in 1988 did they return to their 1985 level. Staff and workers' incentive funds saw a gradual annual increase from 1981 to 1984, but after 1985 saw a sustained decline. The decline was not small, with the 1989 figure being only half of the 1985 and 1981 figures.

The problem is, as there has been a quite great increase in the proportion which retained profits constitute in realized

profits and in the proportion which production development funds constitute in the use of retained profits, how is it that a phenomenon has occurred where production development funds together with pre-tax profits used for repaying credit are far from sufficient to repay credit, and the disparity is growing increasingly wide? To answer this question, we need to understand the structural background which has given rise to this phenomenon.

6. The Structural Background for Enterprises Having Insufficient Capacity To Repay Debt

Our country has always implemented a system where the state financial administration manages the financial affairs of state-owned enterprises. Prior to the reforms, the state financial administration practiced a system of unified receipts and unified expenditure for state-owned enterprises. Enterprise profits were handed up to the financial administration and fixed assets investment and a set quota of circulating funds were allocated by the financial administration (in some periods, the financial administration gave a portion of the set quota of floating funds, which it was supposed to allocate to the enterprise, to a bank to issue as a credit quota). Circulating funds in excess of the quota were provided as credit by state banks. The banks were only cashiers for the financial administration. In such a situation, enterprise investors (owners) and creditors were identical—the state. The assets structure did not essentially differentiate between capital funds and liabilities.

Since the beginning of reform, there have been several major reforms in respect of the modes of funds supply in the state's investment in state-owned enterprises. 1) Fixed asset investment has been changed from allocation by the financial administration to credit provided by the Construction Bank. However, investment decisionmaking power is still in the hands of planning departments and relevant managing departments. 2) Enterprise circulating funds supply has changed from dual-track supply by the state financial administration and state banks to a single-track supply by banks. The state financial administration no longer provides increased allocations of circulating funds and both the quota and above-quota circulating funds are provided as bank credit. 3) The state no longer prohibits the use of credit funds in investment and apart from changing the use of financial administration funds from "allocation to credit," various specialized state banks also use credit funds to provide fixed asset investment credit, such as specific-project credit.

However, the changing of investment funds supply modes have not been accompanied by corresponding reforms in enterprise property rights structures and enterprise financial systems. The state changed the form of its investment in enterprises from financial allocation to the provision of bank credit, but at the same time did not make clear the funds to be used by state enterprises in repaying their debts. Thus capital funds, which were originally provided to enterprises as investment, became enterprise debt. In actual operations, this has formed a triangular situation where the government makes the investment decisions, the banks provide the credit, and the enterprises repay the credit. That is to say, the government is still the owner and the

main investor, but does not inject capital funds into the enterprise. The enterprise then, for the owner and the investor (the government), repays the investment credit to the creditor (the bank). However, after the debt has been repaid, the government in its status as owner (investor) continues to extract investment earnings from the enterprise. In this way, as soon as there is any investment, the enterprise concurrently faces demands from two sides. The bank has the right to seek repayment of the debt, while the government has the right to seek surpluses resulting from the investment. On the one hand, through repaying debt, the capital funds of the enterprise are drawn away, while on the other hand, in a situation where the state financial administration controls the finances of state-owned enterprises is maintained, investment earnings cannot first be used to guarantee the repayment of bank credit. Rather, enterprises have to first guarantee the amounts to be handed up to the financial administration and subordinate themselves to the demands of balancing the budget. The result is that enterprises lack capital funds and find it difficult to engage in self-accumulation. If enterprises in such a difficult situation cannot get in touch with other investors who can raise capital funds for them, they will have no option but to become increasingly in debt to the banks.

It should also be pointed out that the "change from financial allocation to the provision of credit" and the provision of other fixed asset investment credit are being implemented in a situation where state-owned enterprises have never before engaged in their own accumulation and where a capital funds deficit has already been formed. Under the system of unified receipts and expenditure prior to reform, because all their profits were handed up to the state financial administration, state-owned enterprises could not engage in their own enterprise accumulation. At the same time, because the entirety or part of the fixed asset depreciation funds were handed up to the financial administration or a part was handed up to the managing departments, a capital funds deficit was formed by this gradual taking away of quite a large proportion of enterprise capital funds. With such a historical background, when an enterprise uses bank credit investment to carry out renewal and transformation projects, it has to use the newly created profits and enterprise retained profits to compensate for the capital funds deficit which was created in the past. Furthermore, in a situation where a portion of depreciation funds are handed up and depreciation funds are used to repay credit, new capital funds deficits will continue to be created. In respect of enterprises using bank credit investment for new construction and expansion projects, when part of their pre-tax profit is used to repay credit, it is, as far as the enterprise's funds operations are concerned, equivalent to the original relationship where the financial administration allocated funds and the enterprise handed up profits. However, the difference lies in the newly added interest burden on enterprises. Meanwhile, the use of post-tax enterprise retained profits to repay credit is equivalent to the enterprise using accumulation funds which it has just extracted (production development funds) to offset capital funds which will be taken away immediately after the project is completed and put into production. The use of depreciation funds to repay

credit is even more directly taking away enterprise capital funds. From this we can see that by analyzing the existing investment credit system in the light of the historical background, it is not difficult to understand the reasons why state-owned enterprises are seriously lacking in terms of their capacity to repay credit.

7. Enterprise Investment and Internal Funds Sources

In order to examine the capacity of state-owned enterprises to engage in simple reproduction and expanded reproduction under the existing structure, we should look at the proportion which funds from within enterprises constitute in total funds invested in the sample enterprises during the 1980's (See Table 6). Funds sources within enterprises basically only include enterprise retained profits (production development funds) and basic depreciation funds. However, since the latter part of the 1960's, our country's state-owned enterprises have implemented the method of separately extracting but jointly using depreciation funds and major repair funds. From the statistics available, we cannot separate the use of these two types of funds and, thus, in our analysis here, we are including major repair funds with depreciation funds.

Table 6—Funds From Within the Enterprises as Proportion of Total Investment

Year	1980	1981	1982	1983	1984
Enterprise Retained Profits	4.70	5.81	7.29	9.13	6.26
Depreciation and Major Repair Funds	20.88	26.25	26.04	21.79	18.52
Total	25.58	31.86	33.33	30.92	24.78

(Cont'd)

Year	1985	1986	1987	1988	1989
Enterprise Retained Profits	7.01	6.23	8.98	10.73	10.11
Depreciation and Major Repair Funds	19.14	20.71	19.64	20.15	20.18
Total	26.14	26.98	28.62	30.88	30.29

From the data in Table 6, regardless of whether we speak of enterprise retained profits or depreciation funds and major repair funds, we can say that both have seen quite large fluctuations in terms of the proportion they constitute in total investment over the last 10 years. However, the orientation of their fluctuations has been basically the same. This is mainly because there have been large fluctuations in the speed of growth in total investment in various years. As to the absolute amount of these two sources from within enterprises, they have both seen stable increases.

However, if we look in stages, in the latter five years in Table 6 (1985-89), the proportion which depreciation funds and major repair funds constituted can be said to have been quite stable, fluctuating around 20 percent. Meanwhile, the proportion constituted by retained funds from enterprises

was 6 to 7 percent from 1985 to 1987 and over 10 percent in 1988 and 1989. In brief, during the period 1985 to 1989, funds from within enterprises generally constituted 26 to 30 percent of total investment. In other words, enterprises had to rely on external funds for over 70 percent of their investment.

At the same time, it needs to be explained that for reasons inherent in the funds supply structure, over 90 percent of what we refer here to as total investment is fixed assets investment. From the average figure from the sample enterprises over the period 1985 to 1989, the ratio between the original value of enterprise fixed assets and the norm of circulating funds actually used was about three. (Footnote 9—During the Seventh Five-Year Plan period, for state-owned industrial enterprises, the annual norm of circulating funds as a proportion of the original value of fixed assets were respectively 28.94 percent in 1986, 28.85 percent in 1987, 29.14 percent in 1988, 32.33 percent in 1989, and 34.46 percent in 1990. 1991 Statistical Yearbook of China p 410). From this we can see that the figures from the sample enterprises were quite close to the figures provided by national statistics. This means that the funds actually used for investment must be at least 20 percent higher than the total book investment. This investment gap is made good through reliance on circulating fund credit from banks. (Footnote 10—After the implementation of unified management of state-owned enterprises circulating funds by banks in July 1983, it was in principle stipulated that enterprises must use 10-15 percent of their post-tax retained profits to supplement their own circulating funds and that for newly-built or expanded enterprises, the 30 percent base circulating funds needed by the project after it had been completed and put into production was to be provided by the managing department or through funds raised by the enterprise itself. In fact, however, these measures for providing funds sources were never actually implemented. The enterprises have a far from sufficient capacity to repay credit used for investment in fixed assets, and a funds market which could provide enterprises with an avenue for raising their own funds has not yet been formed. Thus, it is not surprising that it has not been possible to implement these stipulations on enterprises supplementing or raising their own circulating funds.) On the basis of this estimate, funds sources from within enterprises can at most constitute only 22 to 25 percent of total investment actually used (not book value). Of this, about 5 to 8 percent will come from retained profits and about 17 percent will come from depreciation funds and major repair funds. After this adjustment, it can be seen that state-owned enterprises must rely on funds sources outside the enterprise for at least 75 percent of their investment. This shows that internal funds sources for investment are clearly and obviously insufficient. (Footnote 11—As a comparison, let us look at the relevant figures from listed U.S. companies. According to figures from the U.S. Federal Reserve Board, of total investment in fixed assets and circulating funds in nonfinancial, nonfinancial companies in the United States in the period 1970-78, funds provided from within the companies totalled 71 percent, 22 percent coming from retained profits and 49 percent coming from depreciation funds. External funds sources provided

only 29 percent, including 5 percent from newly issued shares and 24 percent from borrowing bonds, mortgages, and bank credit. See S. Kerry Cooper and Donald S. Fraser, *The Financial Marketplace*, China Financial Publishing House 1989 edition p 362)

In a situation where internal funds sources for enterprise investment are seriously insufficient, actions whereby the government has cut off financial allocations as a means of investment in state-owned enterprises and has not opened up avenues by which enterprises can raise capital funds through issuing shares, instead it has enterprises relying on bank borrowing for their investment, naturally resulting in enterprises being unable to bear the burden of repaying principal and interest.

8. The Insufficient Extraction of Depreciation Funds by Enterprises and the Outward Flow of These Funds

Factors affecting enterprise retained profits have been touched upon in several analyses above and will not be further discussed. What is of interest to us here is the proportion of investment which comes from depreciation funds.

As has been noted above, depreciation funds in the sample, even together with major repair funds, only constituted about 17 percent of total investment, while in U.S. shareholding companies about half (49 percent) comes from their internal depreciation funds. From one angle this clear comparison reflects the extreme weakness of our country's state-owned enterprises for engaging in self-renewal and transformation. Or, to put it another way, their renewal and transformation relies to a great extent on the "transfusion" of funds from outside.

Reasons for the shortage of depreciation funds which enterprises can use for their own investment can be summed up as: 1) insufficient depreciation funds are extracted, and 2) too many of the depreciation funds which have been extracted by enterprises flow outside.

There are many factors in the insufficient extraction of depreciation funds. Not only are stipulated depreciation rates low, but some enterprises, after having implemented contracted operations, have intentionally extracted fewer depreciation funds than stipulated or extracted none at all in order to be able to complete contracted profits and tax targets. (Footnote 12—According to statistics, the basic depreciation rates for fixed assets in our country's state-owned industrial enterprises have been as follows: from 1952 to 1970, they ranged from 3.6 to 3.8 percent, from 1975 to 1980, they ranged from 4.0 to 4.2 percent, from 1981 to 1984, they ranged from 4.3 to 4.6 percent, and from 1985 to 1989, they ranged from 5.0 to 5.3 percent. 1991 *Statistical Yearbook of China* p 28.) Also, according to a fixed-date survey of 18 state-owned enterprises conducted by the Hohhot, Inner Mongolia, branch of the Industrial and Commercial Bank of China, in recent years, these enterprises have only been extracting depreciation funds at 2 percent to 2.5 percent of the original value of fixed assets, and some enterprises did not extract any depreciation funds or major repair funds. [1991 *Statistical Yearbook of China* p 529] However, at present, what is particularly deserving of

attention is that in the situation in the 1980's, when prices rose continually, depreciation funds were still extracted on the basis of the original book value of the fixed assets and were not extracted on the basis of the replacement value of the assets. Further, the depreciation system in place in our country at present does not consider invisible wear. Actual depreciation rates so formed are thus too low. Apart from the essential problems with depreciation rates which are too low, this leads more seriously to the erosion of enterprise capital funds. The insufficient extraction of depreciation funds is equivalent to a portion of an enterprise's compensatory funds being transferred to profit or being used to offset book losses. This can thus also be said to be profits eating into enterprise capital funds.

As to the outflow of depreciation funds which have already been extracted, we can see something of this from Table 7.

Table 7—The Extraction and Use of Depreciation Funds and Major Repair Funds (Average Values of Sample Enterprises)

	(Unit: 10,000 yuan)				
Year	1981	1982	1983	1984	1985
Depreciation Funds Extracted in Year (1)	67.07	73.66	85.18	95.17	127.14
Major Repair Funds Extracted in Year (2)	40.30	44.13	48.66	55.11	64.01
Depreciation Funds, Major Repair Funds Used in Enterprise Investment (3)	53.60	60.10	68.45	71.58	95.55
(3)/(1)%	79.92	81.59	80.36	75.27	75.15
(3)/(1+(2))%	49.92	51.02	51.14	47.65	49.99

(Cont'd)

Year	1986	1987	1988	1989
Depreciation Funds Extracted in Year (1)	155.69	175.23	202.65	229.12
Major Repair Funds Extracted in Year (2)	82.81	88.15	103.58	110.50
Depreciation Funds, Major Repair Funds Used in Enterprise Investment (3)	128.14	152.90	175.69	198.78
(3)/(1)%	82.30	87.26	86.70	86.76
(3)/(1+(2))%	53.73	58.05	57.37	58.53

From Table 7, we can see that depreciation funds and major repair funds used by enterprises in their investment were, in all cases, clearly lower than the depreciation funds extracted in that year. The lowest figure was only 75 percent and the highest only 87 percent. If we take the average for the sample enterprises over the period 1981 to 1989, this differential is equivalent to throwing away 43.76 percent of production development funds extracted from the enterprises over the same period. If we also take into the calculation that portion of major repair funds not required to guarantee major repairs and which could be used for

investment, then the differential between investment use and funds extraction is even greater. This fact proves that the assets of state-owned enterprises have long been "bleeding." In such a situation, if enterprises do not have "transfusions" from outside, then even simple reproduction will be difficult to sustain.

Depreciation funds are compensatory funds for enterprise fixed assets. Prior to reform, the state financial administration or managing departments collected part or all of the depreciation funds. This is no longer appropriate. In the situation subsequent to the "change from financial allocation to the provision of bank credit," where enterprises operate with a certain amount of debt, there is no rationale for the state financial administration or other managing departments to continue to take depreciation funds. However, the present situation is one where: 1) enterprises have to hand up a certain portion of their depreciation funds to their managing department; 2) they have to use the depreciation funds from newly added fixed assets to repay bank credit; 3) they have to hand up 15 percent and 10 percent of their depreciation funds as state key energy and communication project construction funds and state budget regulatory funds respectively. By their nature, depreciation funds fall under the category of enterprise capital funds and the outward flow of depreciation funds undoubtedly eats into enterprise capital. The State Council has already stipulated that, beginning in 1992, there will be a gradual cessation over three years of the levying of "two funds" on the depreciation funds of medium- and large-sized enterprises. However, the capital funds status of depreciation funds still needs to be clearly stipulated, and the issue of leaving all depreciation funds with the enterprise still needs to be resolved.

9. Defining of Capital Funds and the Conversion of Debt into Share Capital

From the above analysis, we can see that deep contradictions exist in the current liability system of our country's state-owned enterprises and there are serious defects in the enterprise assets-liabilities structure. Without reforming this system and structure, we will be unable to resolve the problem of there being no one who will take responsibility for investment risks and assets growth, state-owned enterprises will be unable to extricate themselves from their accumulated debt, which is becoming heavier and heavier, and there will be a danger that one day they will collapse. We are now at the stage where such reform cannot be further delayed.

The crux of this system and structural reform lies in putting in order the property rights relationships of state-owned enterprises. The reform of the state-owned enterprise property rights system is a question which requires specialized study and exploration. Here I will only touch on several points which fall within the scope of this paper.

1. There must be clear stipulations in respect of the limits of state enterprise investment and credit. Practice has proven that in a situation where these limits have not been clarified, simply changing government investment in enterprises from financial allocations to bank credit is not an appropriate

method. Owners or investors who have been entrusted to carry out the owners' functions must take on the risks of investment and must take legally stipulated liability for enterprise debt. The creditor and debtor relationship between banks and enterprises cannot replace the investment relationship which the government or state has with the enterprise.

2. The capital funds of state-owned enterprises must be clearly defined. The owners (investors) must actually (not nominally) inject capital funds into enterprises, and capital funds must be used as a basis for enterprise liabilities and as a guarantee that the liabilities can be repaid. Capital funds investment in an enterprise by the owners (investors) and the funds which grow from them form the corporate assets of the enterprise, which represent the rights and interests of the owners (investors). The ratio between debt and rights and interests should be maintained within the range where the enterprise is able to operate effectively.

3. The enterprise's corporate assets should be defined through legally stipulated procedures and should be safeguarded in accordance with state's laws. The state financial administration and other departments of the government must be prohibited from taking over, on any pretext, an enterprise's corporate assets, including fixed assets and depreciation funds. Enterprise corporate assets should only be subject to compensated transfer in accordance with property rights principles.

4. Enterprises should take their corporate assets as their financial base and, as independent commodity producers and commodity operators and independent market activity entities, participate in production and operational activities. Also, there should be reform of state-owned enterprises so that we move away from the system of management by the state financial administration to form compensatory mechanisms and accumulation mechanisms within enterprises. This will allow internal enterprise funds, including retained profits and depreciation funds, to grow into a major source of enterprise investment.

Given the present situation which widely exists in our country's state-owned enterprises, whereby they have heavy debts and are unable to clear them, there is an urgent need to find a way out for them. However, the state financial administration does not at present have the capacity to allocate new funds to enterprises to allow them to repay their bank loans. State banks are also unable to cancel or strike off the books investment credits already provided to state enterprises, as the banks rely to a very great extent on the repayment of loans for their own funds (this is a normal phenomenon). (Footnote 13—Of funds sources for state bank credit, the proportion which the bank's own funds constitute has been as follows over the years: in 1983, it was 13.43 percent; in 1986, it was 11.73 percent; in 1987, it was 10.88 percent; in 1988, it was 10.42 percent; in 1989, it was 9.70 percent; and in 1990, it was 8.80 percent. See *1991 Financial Yearbook of China* p 42.) If the banks cancel or strike off the books credit already provided to enterprises, we will only fall into the mire of a supraeconomic issue of money, which will lead to pernicious inflation. That is to say, under the existing system there is no way for the

financial administration or the banks to handle that portion of present enterprise debt constituted by credit provided by banks as a result of the owners not investing the funds which should have been invested. This problem has to be solved and its resolution will brook no delay. Otherwise, not only will the unbearable debt result in enterprises finding it difficult to achieve the hoped-for increased vigor, but will also inevitably create obstacles to the deepening of reform in state-owned enterprises. Today, an increasing number of persons have agreed on the necessity of state-owned enterprises carrying out reorganization in accordance with the shareholding system. However, if state-owned enterprises cannot get rid of that portion of their debt which they have no capacity to repay, it will be very difficult to reorganize the enterprises in accordance with the shareholding system. This is because, apart from the depreciation of existing assets, no new shareholders will be willing to have the money they paid for shares used by enterprises to pay off their debts.

What is to be done? In all situations there is a way out. Proceeding from the situation which has already been formed and in coordination with the orientation of enterprise structural reform, a plan of reform is being considered where, for that portion of the existing debt of state-owned enterprises which comprises bank debt and which was created by owners failing to invest that which they should have invested (and only for this portion), we should implement the conversion of debt into share equity. That is to say, we should convert bank's creditor rights in respect of particular enterprises into shareholder rights in those enterprises. I do not believe that this is an ideal plan, especially under the banking system existing in China at present. However, it is still a realistic and feasible plan. It assists in putting in order the assets-liability relationships of state-owned enterprises and it also links up with the reorganization of state-owned enterprises through the shareholding system. Of course, this plan is only limited to resolving the problem of this portion of bank credit liabilities and cannot replace the overall reform of the property rights structure and system of state-owned assets. (Footnote 14—Please see my "Separation of Functions: The Crux of Reform of State-Owned Assets Property Rights System" in GAIGE No 5, 1991.) Furthermore, as far as just this portion of bank credit is concerned (we must guard against persons taking advantage of this opportunity to repudiate other outstanding credit provided by banks to enterprises), after implementing the conversion of debt into share equity, banks should establish independent corporate entities to handle share equity operations and investment business. These will link up with the property rights structure and system formed after the overall reform of the state-owned assets management system, and their duties must not be confused with the credit function of the banks. Such corporate entities will gradually be able, through share issues and share equity operations, to put the relationship between this portion of an enterprise's share equity and the bank's internal credit funds in order.

Author's postscript: This article is an interim result of "The Reform and Efficiency of State-Owned Enterprises," which is a key project of the State Social Sciences Fund. The head

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Foreign Trade, Investment

Challenges Posed to Economy by GATT Membership

93CE00724 Beijing JINGJI RIBAO in Chinese
29 Sep 92 p 1

[Article by Zhang Qizuo (1728 0366 0146). "Effect on the National Economy of the Restitution of China's Position as a Signatory to GATT"]

[Text] GATT is an international treaty based on the market economy whose purpose is to liberalize trade and promote international trade. This agreement sets forth the principles and provisions that each of the signatories are to abide by in trade policy. It is the sole international institution that promotes the liberalization of international trade. GATT, together with the International Monetary Fund and the World Bank, are termed the "three mainstays" of the post-war world economic order. China is about to be restored to its position as a signatory to GATT. In long term, this presents a rare opportunity for the development, reform and opening to the outside world of China's economy; but in the near term, it poses a challenge to it.

GATT Restitution Will Occasion New Opportunities for China's Economy

Restitution of China's position as a signatory to GATT will enable China to become genuinely a part of the international economic process and the international division of labor, and to participate directly in market competition in the world economy, thereby spurring optimum allocation of China's resources in the large international market.

1. It will help intensify reform and opening to the outside world, spurring the economy to reach a new stage with all possible speed. China's reform and opening to the outside world, and particularly the current national economy, must reach a new stage with all possible speed. Objectively, we have to have a corresponding external international climate and, as a multilateral trade system, GATT can play a role in creating a rather good external environment for China's reform and opening to the outside world and the national economy. At the same time, this can also play a positive role in the development of China's foreign trade, use of foreign capital, and the importation of technology and knowledge.
2. It will help establish a relatively stable new order for the commodity economy. After restitution of China's position as a GATT signatory, China's economy will become an organic component part of the world commodity market. The commodity economy mechanism will develop to the fullest, and on this foundation a relatively stable new order in the commodity economy will take shape.
3. Enjoyment of multilateral, stable, and unconditional most favored nation treatment. China has signed multilateral trade treaties and agreements with some countries that provide mutual most favored nation treatment, but some of

this most favored nation treatment remains unstable. For example, despite a bilateral agreement, the United States still one-sidedly prescribes that continuation of China's most favored nation treatment requires a decision by the United States president and ratification by the Congress each year following expiry. Statistics show that since China has not yet obtained most favored nation treatment, 90 percent of its exports are limited to North America, Hong Kong and Macao, and some areas in Europe. Sales to more than 100 other nations and territories amount to only approximately 10 percent of exports. With restitution of China's seat on GATT, China can then enjoy long-term multilateral, unconditional most favored nation treatment from all signatory nations in accordance with the multilateral most favored nation clauses of GATT. This will help China's export trade.

4. As a developing country, China's industrial manufactures should enjoy favored treatment under the "general preference system" when they are exported to developed countries, but at the present time, China can only enjoy "general preference system" treatment in a small number of developed countries of Europe. Certain developed western countries require that China join the "IMF," the "World Bank," and "GATT" as a condition for considering granting "general preference system" treatment to China's exports of industrial manufactures. At the present time, China is already a formal member nation of the IMF and the World Bank. If China's seat on the GATT is restored, individual western nations will have no reason for refusing "general preference system" treatment for China's industrial export manufactures that enter the markets of these countries. This is of crucial importance in order for exports of China's industrial manufactures to enjoy fair competition in international markets.

5. Will help China protect its own legal trade rights and interests. With the restitution of China's GATT seat, China will be able to avail itself of multilateral GATT talks to resolve trade disputes with other countries without having to resort to the internal laws of each country to resolve disputes as has been necessary in the past. In addition, because of the requirement for "transparency" in economic and trade matters by all GATT signatory nations, GATT has a large amount of information about the economy and trade of each country. Once China's seat on GATT has been restored, it will be able to obtain this information. This will help China in drafting policies on foreign economic relations and trade matters.

6. Will help establish a market competition system. GATT membership will force China's business enterprises to organize production and business activities in accordance with international standards, market demand, and customers' merchandising practices, and it will promote technological progress and structural changes in enterprises, thereby improving the overall quality of enterprises and forcing China's industry to practice the economies of scale.

Restitution of GATT Will Occasion New Pressures and Challenges for China's National Economy

Restitution of GATT membership appears superficially to be merely an import system issue, but it actually poses a

challenge for China's entire national economy and system. In long range terms, one must say that it will help China's economic development, but in the near term, the removal of the "fence" that protects China's domestic market will make China's economy go naked in the fiercely competitive market climate of the world economy and trade. One has to say that this will pose an extremely grim test for China's economy. Not only will industry and agriculture feel the impact, but all the tertiary industries, including businesses, financial securities, and transportation will also be facing grim challenges.

China's Economic Control and Economic System Are Facing Challenges. Since the GATT is founded on the market economy and free trade, this means that the essential issue in China's restitution of its GATT seat is mutual coordination between China's prevailing system and the international economic system, which is primarily a market economy. Furthermore, at the present time, the problem of no separation of government administration and enterprise management continues to exist in our system, yet the most important matter in progress toward a market economy is a change in government's function. Without a change in government's function, a change in business enterprises' operating mechanism is impossible, making enterprises' movement toward the market extremely difficult. In addition, the investment system, the import system, price policies, and the fiscal, tax, and financial system etc. must all quicken the pace of reform and shorten the process of changing from the old to the new system. They must permit the market to guide enterprises, and they must permit enterprises to make their own operating decisions and be responsible for their own profits and losses. At the same time, government's indirect macroeconomic regulation and control capabilities must be improved to enable China's prevailing economic system to draw close to and mesh with the international standard with all possible speed, and give impetus to gradual change toward international macroeconomic management and the enterprise operating mechanism practices.

Challenge to China's Price System. China's progress on price reform is of crucial importance to the restitution of its GATT status. Unless a market pricing mechanism can be fashioned, tariff levers will lack a power point. A shift to trade protection measures employing mostly tariffs and exchange rates will have no price mechanism to rely on for effective regulation. Generally speaking, comparison of Chinese and international market prices shows China's prices to be higher for processed industrial wares such as machinery and electronics, including motor vehicles and household appliances. However, primary product prices are markedly lower. For example, prices of crude oil and coal are lower than the international market prices. If the pattern of high prices and large profits on China's processing industry products continues to be maintained after China joins the GATT, they will easily be driven out of the market by foreign goods. If the low price pattern for primary products continues to be maintained, this will result in a large outflow of such products to foreign markets resulting in a further worsening of the shortage of resources and products in domestic markets. Consequently prices act as a lever in the

allocation of resources. If they do not truly reflect the degree of shortage of resources, China's business enterprises will be unable to obtain accurate signals from market prices.

Challenge to China's Industry GATT entry requires, first of all, a promise to reduce tariffs. A promise to abolish China's longstanding import examination and approval, quota, and licensing systems is also important, using direct administrative methods such as the foreign exchange control system to regulate imports and exports. When China enters GATT, the domestic market will become an integral part of the international market. Markets that were formerly protected will no longer be protected. Foreign goods will be able to enter China's markets freely. This is the greatest pressure that restitution of China's GATT status will exert. Take the effect on industry, for example. By comparison with its effect on Chinese agriculture and basic industries, revival of China's position as a GATT signatory nation will have the greatest impact on processing industries, particularly the machinery, electronics, textile, and chemical industries. This will particularly apply to new high added value and deep processing industries, such as the computer, passenger car, communications equipment, and related industries, which are still in their infancy in China. For some time to come, such industries will be no match for foreign industries in terms of technology, quality, and scale of production. For business concerns, the main problems are being all inclusive economic units no matter whether they are large or small, lack of the economies of scale, and many of them either making minuscule profits or losing money. Regionally, each enterprise doing as it pleases, cut up markets, overbuilding, mindless development, and local and sector trade protectionism continue to exist. For example, more than 700 motor vehicle production plants nationwide today produce only slightly more than 600,000 vehicles, which is less than the output of a single production line abroad. Industries that fail to meet economies of scale requirements are already in a markedly inferior cost position; naturally, their products cannot compete on price with products of the same kind from abroad. Although some of China's processing industries and products hold a certain market share in the country today, this is mostly because they are protected by administrative measures such as tariffs and import approvals. Once China enters GATT, they will never be able to compete on price with foreign products.

Several Ways To Meet the Challenge

Revival of China's status as a GATT signatory poses both an opportunity and a challenge for China's economy. Not only will it make China's economy a part of the world economic pattern, it will also serve to push an overwhelming majority of enterprises into the international market. We must be ready for this eventuality, make the most of advantages and avoid disadvantages, seize opportunities, and actively participate in international economic competition.

1. Quickening the Pace of Economic System Reform, Beginning To Build an Economic System and an Operating Mechanism that Meets Requirements of a Socialist Market Economy. First, is acceleration of the change in government's function and transformation of the enterprise operating mechanism to move enterprises in the direction of the

market. The key here lies in doing all possible to separate government administration and enterprise management as a basis for enterprises becoming responsible for their own operating decisions and for their own profits and losses. In order to do this, governments at all levels must make major efforts to nurture and establish markets for key elements of production, and create a market environment of fair competition for business enterprises that enables mutual coordination between the domestic and international markets. They must also study and draft a series of policies, regulations, and attendant measures to solve the current problems with split up markets and trade and sector protectionism, making markets more transparent and creating fine conditions for enterprises to enter the international market. In addition, enterprises must organize their business and protection activities as soon as possible to conform to international standards, market demand, prices, and business practices. For example, in analyzing market demand, foreign concerns pay particular attention to market volume forecasts and technical progress. By improving product quality and constantly developing new products, they gain customer confidence. This is something that merits our study and emulation. Once China's GATT status has been restored, mostly tariffs and exchange rates will serve to protect imports; therefore, we must accelerate price reform taking market demand as the goal, and tax system reform, using mostly the added value tax. At the same time, we must also move ahead with finance and trade system, and distribution system reforms.

2. Need, First of All, To Change From Import Substitution to a Combination of Internal Sales and Export Orientation as a Foreign Trade Strategy. Meeting Pressures From Imports Head on by Doing All Possible to Develop a Foreign-Oriented Economy, and Second, Full Use of GATT's Discussion Principle and Its Preferential Provisions for Developing Countries For Protection of Domestic Industry. For example, full use should be made of the GATT international balance of payments exceptions, the nascent industry protection exceptions, the safeguard clauses, and the preferences granted developing countries in the reduction of trade barriers. The correlation among tariff, foreign exchange rate, and inflation trade offs should be carefully studied to ensure that the degree of tariff reductions does not go beyond what China's economy is able to bear. Third is the need for careful study of the graduated schedule in drawing up tariff barrier and nontariff barrier reductions to provide differential protection to key products. Industries and products that already benefit from the economies of scale, and that can compete in the market and have become mature may be completely or partially decontrolled. Industries and products that have not completed upgrading must be given a period of protection, the protection provided through differential tariff rates or nontariff barriers. Alternatively, certain products should be granted temporary reprieve from restrictive tariffs. Fourth, widely used international tax rebates should be a major means used to stimulate exports, and open foreign exchange markets should be set up as quickly as possible, the former fixed exchange rate system reformed, and specialized foreign trade import-export commercial banks founded etc. for the establishment of a

foreign trade system that meets requirements of both the domestic and international markets.

3. Energetic Revamping and Optimization of the Processing Industry Structure China's processing industries must put efforts into specialized cooperation and the economies of scale, seeking survival in high technology and "large projects." They must organically link domestic resources and markets with foreign resources and markets, boldly import foreign resources, capital, science and technology, and management experience, and encourage most state-owned enterprises and collective enterprises to take the Sino-foreign joint venture road in running enterprises. They must emphasize the development of externally oriented enterprises and products to improve competitiveness in international markets.

4. Need for Intensive Study of Service Trade Problems. The scale of bilateral trade negotiations currently underway in the "Uruguay Round" has expanded from trade in traditional goods to the service trade field (including service

industries such as businesses, the financial services business, the transportation business, and basic communications). In the past, China strictly limited the service trades, but once its GATT position is restored, we will have to completely honor all GATT clauses, including the clauses pertaining to the opening up of the service trade and labor trade. Therefore, foreign-owned service enterprises, including businesses, financial services, and transportation businesses may enter China. In this regard, we can make full use of our own advantages in the service trade field, particularly our advantages in the fields of shipping, satellite launching, project construction, and labor exports to hasten development of the country's tertiary industries.

5. Need To Spread Knowledge About Intellectual Property Rights, Increasing Consciousness About the Protection of Intellectual Property Special attention must be given to the protection of China's rights and interests in negotiations about intellectual property rights in connection with business enterprise production and sales, every effort made to lower the cost of importing technology; otherwise China will be unable to gain a footing in the international market.

Lack of Elementary Education in Impoverished Areas Viewed

WCM00144 Hong Kong LIAOWANG OVERSEAS
EDITION in Chinese No 38, 21 Sep 92 pp 7-8

[Article by Tai Po (1986 3134): "Current State of Elementary Education in China's Impoverished Areas"]

[Excerpt] In Zhenan County, Shaanxi Province, there is a 12-year-old girl named Qing Yuanxiang (0615 6678 7499). When her father died of illness, only she, her mother, and a younger sister not yet four years old were left in the family. The poverty of their life made her quit school. In the daytime, she fed pigs and chopped firewood; in the evening, she put out her textbooks and studied by herself. On the day of finals, she hurriedly finished her household chores and ran to the school, where, in the remaining half of a class period, she conscientiously answered questions on the test paper, at the end of which she wrote four large characters: "I want to go to school."

Qing Yuanxiang's story reflects the worrisome current state of elementary education in China's impoverished areas.

It should be admitted that, after the founding of New China, there was a considerable development in China's education. Now in China there are 220 million students in school, and the ranks of elementary, middle, and higher education teachers exceed 10 million. In elementary education, the rate of school-age children entering school is more than 97 percent. Since 1977, the proportion of the country's average annual expenditure on education has been 15 percent of the national income, exceeding the proportion in the same period of time in the developed countries.

However, because of the economic backwardness and the heavy population burden, the development of China's education still faces many real difficulties. In 1991 the state allocated from its financial resources 38.2 billion yuan in commitments for education, and in addition through other channels 33.1 billion yuan were raised for this purpose, making a total of 71.3 billion yuan. This money was used for 220 million in-school students, amounting to less than 70 yuan per student, which ranks a few places from the bottom in the world. In 1991 America invested \$353 billion in education, by comparison China's total investment in education was only 3 percent of America's.

The funds China uses for elementary education amount to only 60 yuan per elementary school student, and the amount of funds in general can only ensure a teacher's "head fee." According to a briefing given by the elementary Education Department of the State Education Commission, the educational administrative funds of some rural elementary schools are only enough to pay their teachers' salaries for 10 months.

Even if the nationwide average levels were like this, in those impoverished areas that have not yet solved the problem of having enough to eat and wear, the state of affairs in elementary education can well be imagined. According to a survey taken by the China Youth Development Foundation, in Laiyuan County, Hebei Province, some schools have no desks or chairs and the children have to stand in class. In

Shangji Village, Shouchang Township, Fuping County, because there was no money to build a school, the village elementary school and the pig and sheep pens were joined together.

According to statistics from the State Education Commission, in 1989 middle and elementary schools throughout the country lacked 75 million square meters of school building space, there were still 43 million square meters of dangerous building space, and there was a lack of 13 million desk and bench sets. Throughout China only 47 percent of the middle schools and 6 percent of the elementary schools had laboratories, and less than 10 percent of the middle and elementary schools had the laboratory equipment necessary for teaching. The greater part of these shortages were concentrated in the impoverished areas where the economy was backward.

The backwardness of elementary education has caused a big increase in illiteracy. There are 200 million illiterates in China, and every year about 4 million elementary school students drop out of school, among whom 1 million do so because of family poverty.

There are now more than 300 counties in China designated by the state as key poor-relief counties, and the average annual income of about 50 million of their population is less than 300 yuan. In these areas each school-age child must pay 40 to 50 yuan every year in book and miscellaneous fees. For many poor families this is a burden that is hard to bear. Under circumstances in which he cannot both eat and study, the child has no alternative but to quit school. The Zhongxin Elementary School in Youdian Township, Qingshan District, Jinzhai City, Anhui Province, originally had more than 210 students. When the school year began, more than 50 of them did not return, and the dropout rate rose to 26 percent.

The hardships experienced by many children in seeking knowledge after quitting school are sad to hear about.

In Bahe Township, Cangxi County, Sichuan Province, there is a young girl named Wang Cuihua. Last year her family harvested 170 kg of rapeseed. After paying the agricultural tax, repaying debts, and buying the necessities of life, the family only had several fen left. Her father tried to make Young Cuihua quit school, but she wept in protest. Her mama reproached her: "Stupid child, do you want to eat or study—which?" She quickly replied: "Mama, if you let me go to school, I won't eat lunch." Wang Cuihua could then attend school, but every time the class was dismissed at noon she hid herself on a small hill behind the school. She was unwilling to let her teachers and schoolmates know that she had no food to eat, and, from the time on, every noon period seemed especially long for Wang Cuihua.

In the impoverished areas, there are many elementary school students like Wang Cuihua, and the great majority of them excel both morally and academically, and are intelligent and loveable. The results of a survey taken by means of a little over 3,000 questionnaires shows that 67.4 percent of

the students excelled both morally and academically, and had studied hard. Only 26.43 percent had studied little and had not tried to advance.

Because her mother died of illness and left more than 2,000 yuan in debts and her father went outside the home to work, the heavy burden of household chores fell on the shoulders of Chen Xiniao, a student in Zhuwan Township, Suoning County, Anhui Province. Taking care of younger brothers and sisters, nursing the grandmother, cutting green feed for pigs, washing clothes, and cooking—every morning before daylight she rose from bed and was busy with household chores. After finishing the chores, carrying her three-year-old sister on her back, she hurried along a mountain road of five li to attend school. In the evening, after coaxing her younger brothers and sisters to go to bed, under the dim light of an oil lamp she was able to open her textbooks. Even so, in the tests at the end of the 1990 term, her marks in mathematics and language were the highest in the township. In the first half of 1991, she was cited as "China's Good Juvenile" and won Anhui Province's only "Good Student Award." This year, in the general examination for graduation from elementary school to junior middle school, her total score was the highest in the county. [passage omitted]

The first ones to try to stop students in impoverished areas from dropping out of school are precisely the teachers of these students. A total of 128 young teachers of Luomeihe Township, Luanlan County, Hebei Province, traveled back and forth a grand total of 7,000 km of precipitous mountain roads every year in order to get back children who had dropped out of school. In the past three years, these teachers have paid a little over 40,000 yuan—half of their total income—to cover the students' school fees and to buy things needed for study. The account books for Zhu Dongming, a teacher in the Huangnifan Elementary School, were even more amazing. He worked eight years for a total income of 8,064 yuan, and spent 5,886 yuan—73 percent of his total income—on students. In Zhu Dongming's home, except for a single cassette recorder used for study purposes, there is no item of clothing that cost more than 40 yuan, and no pair of shoes that cost more than 20 yuan. [passage omitted]

Ministry of Personnel on Returned Students Assignment Policy

93CM0002A Beijing ZHONGGUO RENCAI [CHINA'S PERSONNEL] in Chinese No. 7 July 92 pp 30-41

[Article by Ministry of Personnel, Department of Personnel Deployment, Overseas Student Office. "Questions and Answers on Policy Issues Regarding Assigning Returned Students Work". Policy Mail Box Column"]

[Text] 1. Which overseas students are assigned jobs through state centralized placement?

Answer: All overseas graduate students and university students selected and sent by the state plan are assigned jobs through state centralized placement after they have completed their studies and returned home, except for those that clearly had a work unit before they were sent abroad.

If students who were educated at technical universities or higher and go abroad to study at their own expense undergo

the returned students assignment procedures handled by Chinese consulates abroad, they can also be assigned work through state centralized placement.

2. What is the principle upon which students who graduate abroad are assigned work?

Answer: Premised on ensuring that national development needs are met, the job assignments of students who graduate abroad are implemented on the principle of the students' employment's being consistent with their studies and with making full use of a their talents.

Units employing people should treasure talent, work hard to create the conditions for returned students to live and work and fully develop the employees' abilities.

Students who graduate abroad must cultivate the ideology of building up the country through thrift and hard work and arduous struggle, correctly handle the relationship between personal interests and state interests, conscientiously go to work where the state has the greatest need, and contribute their efforts to the modernization of the motherland.

3. Which departments are responsible for assigning work to students who graduate overseas?

Answer: The State Education Commission is responsible for the assignment of students who graduate abroad and are needed for work in the education system. The Ministry of Personnel is responsible for the assignment of students who graduate abroad and are needed for work outside the education system.

4. What are the procedures and requirements for the assignment of non-education system overseas graduates?

Answer: In the assignment of overseas graduates needed to work outside the education system, we must permit the overseas graduate and the employing unit to select each other based on the principle of ensuring national development requirements and the consistency of the employment with the student's studies. The procedures and requirements are as follows:

(1) All education departments (organizations) in foreign overseas consulates are responsible for arranging for overseas graduates to fill out the Returning Overseas Graduate Work Assignment Registration Forms ahead of time and to send them to the Ministry of Personnel's Department of Personnel Deployment six months before the overseas graduate returns.

(2) The Ministry of Personnel's Department of Personnel Deployment is responsible for sending the data on the overseas graduate from the consulate to the relevant ministry or commission, or provincial or municipal personnel (scientific and technical cadres) department.

(3) All relevant ministries and commissions and provincial and municipal personnel (scientific and technical cadres) departments, combining the overseas graduate's field of study and personal desires with their department's or their region's actual needs and the work and living conditions that they can provide, should propose their requirements to the overseas graduate and fill out the Registration Form.

the Situation of Units Requesting and Requiring Overseas Graduates and send it to the Ministry of Personnel's Department of Personnel Deployment.

(4) The Ministry of Personnel's Department of Personnel Deployment examines the requirement plans proposed by all departments and regions, collects them and provides the overseas graduate with information on work units to select from.

(5) The Ministry of Personnel's Department of Personnel Deployment, based on national development requirements and respecting the views of both the employing unit and the overseas graduate, determines the work unit assignment and handles assignment procedures.

(6) Some outstanding overseas graduates with doctorates can work, upon requesting and obtaining approval, at post-doctoral scientific research rotating units for a period of time and then be assigned to a work unit. (Specific methods are stipulated elsewhere.)

5. What do the procedures for assigning and deploying overseas graduates include?

Answer: Procedures for assigning and deploying overseas graduates include the following:

(1) The Ministry of Personnel's Department of Personnel Deployment writes a work assignment letter of introduction and the overseas graduate can take the letter of introduction directly to the work unit.

(2) The Ministry of Personnel's Department of Personnel Deployment writes a letter of introduction regarding housing, grain, and oil and the overseas graduate can take the letter of introduction directly to the public security bureau of the city in which the work unit belongs and follow housing, grain, and oil procedures.

(3) If the overseas graduate was a salaried staff member before he went abroad, when he is assigned and deployed, the Ministry of Personnel's Department of Personnel Deployment is responsible for notifying the overseas graduate's original work unit and for forwarding information regarding his salary to the unit receiving him.

(4) The Ministry of Personnel's Department of Personnel Deployment is responsible for forwarding such data as appraisals of the overseas embassy to the receiving unit and is responsible for informing the State Education Commission's Overseas Student Department or the work unit that selected and sent the student overseas of the situation, and for sending data on the organizational relationship of the overseas graduate and his dossier to the receiving unit.

(5) If the overseas graduate going from Beijing to his work unit to report lacks travel funds, the Ministry of Personnel can issue the funds following the standard expenditure for graduates of domestic institutions of higher education who are assigned and deployed, and the student can be settled by the employing unit. They also can be paid first by the person himself and reimbursed by the employing unit in accordance with the standard state expenditure for graduates of institutions of higher learning who are assigned and deployed.

6. How is the seniority of overseas graduates calculated after they are assigned to their work units?

Answer: For overseas graduates who obtained a doctorate abroad, the domestic seniority is calculated on the time limit approved for studying for the doctorate. For staff members going abroad to study for a master's degree, after they obtain the degree and return home, seniority is calculated on the stipulated study time limits. The seniority of overseas graduates that obtain a degree below the doctorate is calculated from the reporting date and for those who already had seniority before they left the country, consecutive seniority is calculated from the reporting date.

7. How are pay standards verified for overseas graduates after they report?

Answer: Pay standards for overseas graduates after they report are verified in accordance with the State Council approved and transmitted "Ministry of Personnel, State Planning Commission, and Ministry of Finance 1989 Program to Implement Pay Adjustments for State Organization and Professional Unit Working Personnel."

Overseas graduates first engaging in work undergo a one year observation period and during that period, the structural pay system is not implemented. During the observation period, the overseas graduates' temporary pay and benefits are divided into six pay categories. Graduates of technical universities, 64 yuan; graduates of regular universities, 70 yuan; graduates of regular universities with a second degree (a double degree) and overseas graduate students who have not obtained a masters degree will receive a wage during the observation period of 82 yuan. After the observation period, the fixed pay grade method will no longer be implemented. It is changed to receiving position pay corresponding to the person's own performance and the position.

Graduates of various types of schools who worked a year or more before enrolling in school and graduates of graduate schools abroad who have obtained master's degrees and doctorates may not be required to undergo an observation period. In the six pay levels, overseas graduates who have obtained a masters degree, before they have a definite job, will receive an initial pay of 95 yuan. Overseas graduates who have obtained a doctorate, before they have a definite job, will receive an initial pay of 105 yuan. Seniority and allowances are both distributed in accordance with the unified plan. After awaiting a definite job, they will receive wages corresponding to the job that they have assumed from the date that their job is determined.

8. What are the regulations regarding vacation benefits for overseas graduates after they have been assigned work?

Answer: All those who returned home on vacation while studying abroad generally will have a month's vacation arranged for them. Those who studied abroad for three years or more and did not return home for a vacation generally will have a two month vacation arranged for them. Those who had more than two months between the time that they returned home until the time they report to work generally will not get more vacation time after reporting to work.

While on vacation, the person will be reimbursed by the employing unit for one round trip fare from the work unit to the place where his spouse or parents live in accordance with relevant regulations on staff home visit fares. Those who go to visit their spouse or parents on their own before reporting to their work unit will assume their own round trip fare.

Analysis of Reportage Literature Since 1990

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[Article by Zheng Bonong (6774 0130 6593) "Pulse of the Times, Aspirations of the People—Casual Talks on Reportage of the 1990's"]

[Text] Results of appraisal through discussion of the "1990-1991 Awards for China's Fine Works of Reportage" sponsored by the Chinese Writers' Association were made public in May. The recent appraisal through discussion has presented a number of fine works of reportage from which we can see the progress and accomplishments since the beginning of the 1990's.

Having read works of reportage published over the year, we have the general impression that these works have provided us with a large amount of information, high degree of readability, and great enlightenment with strong influential power. The 33 pieces awarded prizes have been selected from some 10,000 works of reportage; they can hardly cover the range of life reflected in reportage over the past few years. But reviewing the 33 awarded pieces, we found their themes and subject matter are quite extensive. There are stories about reform and opening in the coastal areas; arduous pioneering work in poverty-stricken areas; exploration in Antarctica; life of overseas Chinese striving abroad; environmental protection; land development; and so on. The bulk of them are about economic construction, reform, and opening in various parts of the motherland. The articles "Nine Chapters on Yimeng," "To Paradise," "The Mystery of Shenzhen's Sphinx," and "Kunshan's Way" have shown us four different categories of construction and reform. Reviewing China's reportage in recent years, it is not an exaggeration to say that all kinds of new problems and contradictions that have surfaced in the progress of the times, all kinds of new atmosphere and figures are reflected.

Our reportage has covered a wide view of life. Such creations would not have been worth our praise had it reflected only certain superficial phenomena in life. What is pleasing is that these works cover a wide range of themes and subject matter, with great profundity in life reflected. Many works are the result of the authors' long-term coverage, repeated investigation, in-depth contemplation, and painstaking creation. Both the authors of "Road to Infinity" and "To Paradise" spent a few years closely tracing the heroes in their works; they have perfect knowledge of the subjects in their portrayal, and even become the heroes' bosom friends. The two authors of "Frantic Tomb Robbers" mastered voluminous first-hand materials through coverage and conducted long-term on-the-spot investigation. While reading voluminous written materials, the author of

"Yellow Earth, Black Soil" started his 10,000-kilometer journey from Heilongjiang to the southwest, covering eight provinces and cities, while conducting investigation and study on his way. In the author's own words: "The article was completed only with great efforts of the feet." Almost every writer awarded a prize could tell his own lengthy story of going deep into reality. It is precisely because they have worked hard in a down-to-earth way in going deep into reality that their works are different from "salon literature" and "guest house literature"; they have reflected life in thousands of postures in all its colors, while demonstrating the profundity, substance, and dignity of life. A piece of fine work should penetrate the surface of life and provide an answer to the riddle of life. "The Mystery of Shenzhen's Sphinx" has precisely revealed the key to the riddle of Shenzhen's 10-year construction, reform and opening up. In fact, many other fine works share this characteristic. "Kunshan's Way" has revealed the secret of Kunshan's economic leap. "Yellow Earth, Black Soil" has provided an answer to the mystery of China's land issue. In short, many of the authors have mastered voluminous vivid materials emerging in life; furthermore, they are able to stand on the plane of the times and history and the position of the party's basic line to observe, analyze, and contemplate life. This has precisely enabled their works to boast a huge volume of information as well as have a very powerful and penetrating ideological force.

I heard an opinion that believes reportage has been "on the decline" and in a "weakened" state in recent years, and has not yet come out of the "valley." Others believe, although reportage as a whole is in a "weakened" state, that some individual outstanding works have emerged. To me, when evaluating reportage in recent years, we must take the following points into consideration:

1. The orientation in reportage has been markedly rectified. A few years back, many writers adhered to the correct orientation for creation. However, the phenomena of losing one's way and deviating from the correct orientation were after all conspicuous. Some works were bent on portraying and exaggerating the seamy side of life and played the role of "giving people" morale. Some people advocated "weakening reality, the times, and life," while turning reportage into some knocknack of literature far removed from the tide of construction and reform, while depicting the bitter or sweet stories of some individuals. Some individual works with unhealthy ideological tendencies have also emerged in recent years, but the overwhelming majority of works have been positive and healthy. The writers have not evaded contradictions, and simply showed the sunny side of life. While expressing the mainstream in historical progress, they have also revealed the false, the evil, and the ugly, while criticizing conservatism and backwardness. Whether those works sing praises or reveal the seamy side of life, they are capable of giving people strength to go all out to make progress. Works like "His Soul Lives Forever in the Green Hills," "Tremendous Changes in a Thousand Days," and "The Leading Scalpel in the Mysterious Kingdom" in which the authors have spared no efforts to portray the images of the dedicated and pioneering, are filled with a healthy atmosphere, which is expected. But works like "Frantic

Tomb Robbers," which aim chiefly to lash out at unhealthy tendencies are likewise filled with a healthy atmosphere. They are not intended for people to appreciate ugly things, or to feel helpless facing ugly phenomena, but to rouse their vigilance to fight for a purified social atmosphere. "A Seed Left Behind in the Wilderness" deals with the aftermath of educated young people who had settled down in mountainous and rural areas during the "Cultural Revolution." Here, we read about heartbreaks, tears, and historical trials, and how past wounds have been healed under new historical conditions. A warm flow of love surges throughout the article, and readers cannot but be moved to tears. In a nutshell, writers have augmented their sense of mission and responsibility, and their works are close to the times and the people.

2. In recent years, a number of fine works of reportage have surfaced with the readers' unanimous acknowledgement, and their impact has been stronger than that of those published a few years back. "The Road to Infinity" was first published in June 1990. Then it was adapted as a television play, and broadcast around the Spring Festival this year. As a result, the "Craze for Lin Re" [the article's hero] among the masses still survives. Now the work is in its fifth printing, and some 50 radio broadcast stations across China have included its reading in their programs, while the film industry and drama departments are vying for its production on the TV screen, the movie screen, and the stage. The author's characterization of a fine cadre has strong appeal among the masses. Having read the report, a primary school pupil even wrote a letter to the hero to express his wish to study well so that he could work in the county where the story of "The Road to Infinity" took place. Since the publication of "Her Chinese Heart," it has been reprinted in 30-some journals and newspapers and has become the talk of the town. The hero's passionate heart of a Chinese has moved a lot of people. Some high school students in Guizhou copied the whole piece in big characters and posted it on a wall so that passersby might promptly read it. Likewise, many other fine works have produced strong ideological effects on the readers. When we weigh the social effects of literary works, we should take into account reactions from literary circles, and more importantly, from the broad readership. At a time when there is expression of regret that some literary works have failed to break through the circles of men of letters, our reportage has become implanted deeply in the minds of the broad masses, with its powerful appeal and rallying force.

Was the sensation of such works as "Road to Infinity" and "Nine Chapters on Yimeng" a matter of "chance" and the consequence of hitting at something hot? True, I believe these works have reflected matters of pressing concern among the masses, but the factors of their success are by no means confined to having hit at some hot issues. These works did not resort to exposing some sensational secret or some high sounding eloquence to attract the readers, but relied on in-depth excavation of life and accurate grasp of their characters. We may put it that regarding the depth in generalizing the times, the vividness and roundness in those works are not inferior to the fine reportage of any historical stage. "Road to Infinity" and "Nine Chapters on Yimeng"

are not two lonely big trees that stand amid bushes, there are quite a large number of works that share their charm. It was rarely seen in the history of contemporary Chinese literature that a considerable number of fine works of reportage with rather high ideological and artistic values have surfaced in such a short period.

On such grounds, I believe reportage has not been in a "decline" in recent years, but has enjoyed a high-quality bumper harvest in a great range. This is the result of implementing the party's principle of "grasping rectification on the one hand, and prosperity on the other" as well as reportage workers going deeply into life and adhering to the correct path of creation. In the entire arena of literature, reportage has taken the lead. Reportage will bring along the prosperity of other genres of literature; furthermore, it will play an active role in pushing the progress of the cause of socialist literature and art in its entirety. This point should be fully evaluated.

II

The key link to literary creation is characterization. The degree that characters are typical more often than not determines the work's artistic level. Beyond a doubt, reportage as the marriage of journalism and literature is different from general narration in literature. First, fabrication is intolerable, and second, reporters should not be unanimously required to construct their works with key characters being the center, as in the novel. Reviewing reportage in recent years, it can be largely categorized in different artistic structures as follows: First, narration is unfolded with characters as the focus, such as "The Leading Scalpel in the Mysterious Kingdom," and "A Topic of Life"; second, with an incident as the focus, such as "A Song of Fire, Ice-capped mountain, and the Dove," "Road to the World's Roof" and "A Seed Left Behind in the Wilderness"; and third, with an issue as the focus, such as "Yellow Earth, Black Soil," and "Frantic Tomb Robbers." In all categories, the bulk of works have attached importance to characterization, especially that of the socialist new men. It is pleasing to find so many vivid characters of the socialist new men exhibited in the gallery of reportage.

On the issue of portraying heroes and advanced figures, we have experienced success as well as failure. We had the bitter lesson of exaggerating advanced figures, unifying the rich spiritual world of characters, who might appear "lofty" this way, but lacked truthfulness and cordiality and were lacking an appealing force to move the readers. Later, another tendency surfaced, namely, exaggeration of characters' complexity; in such an approach, an advanced figure was portrayed as some patchwork in all sorts of colors in the absence of a key tone. At a time when bourgeois liberalization ran amok, there was a reversal in value concepts. To some people, the spirit of working hard, overcoming difficulties, and selfless dedication was believed to be an outmoded "old concept," whereas individualism and money worship were believed to be progressive "new concepts." Thus, in some works, characters typical of inflating oneself, putting profit before all else, persisting in one's ways no matter what others say, and being unconventional and unrestrained were described as the elite of the times,

whereas the genuine backbone of the nation was regarded as being behind the times. Recent reportage has overcome such deviations. Reviewing the majority of works, we found no traces of artificial exaggeration, playing down, or worshipping. How should one write? The answer remains to proceed from life. As long as one gets to the bottom of reality, one can always discover and accomplish something and present the new characteristics of people in times of reform and opening up. In "Taklimakan—the Splendor of Life," a group of young people striving on the oil front are portrayed. The blood of the "Iron Man" [Note: Wang Tieren, a model worker of Deqing oilfield in the 1960's] flows in their veins, along with remains of the fine tradition left over from pioneers of the older generation; however, they are not exactly the same oil workers of the 1950's and 1960's. They have new pursuits and emotions peculiar to their own generation. The author has a perfect grasp of the spiritual world of our oil workers in the new historical stage. Zheng Ruiying, the heroine in "To Paradise" was a child bride before 1949. Since reform and opening up, she has led the whole township in establishing enterprises painstakingly to become well-off through working hard and overcoming difficulties. In Zheng Ruiying, we see the spirit of working hard, overcoming difficulties, and selfless dedication, which is typical of the older generation, and even the mentality of paying a debt of gratitude to the party. At the same time, she has a surprisingly shrewd head for thrift and being good at grasping the opportunity for enterprise building and controlling changes in market competition. She is a "dedicated-type" as well as a "blazing-new-trails-type" of cadre, and a perfect blending of the two. In many recent works of reportage, we can see such new-type characters, who are the blending of dedication and blazing new trails, and combination of seeking truth from facts and daring to think and act. They are generalized from life and characters the times have called for.

More often than not, people are not satisfied with works depicting new people and their advanced deeds, and they get the impression that only good people and good things are generally reflected, and that they cannot tell the difference between those characters and ordinary news coverage about model figures. The question does not lie in writing about good people and good things, for socialist new men are really lofty and have actually done many good things for the people. Beyond a doubt, it is necessary to write about good people and good things; the question is how to deal with them. Characterization should be well linked to the times to bring forth its peculiar atmosphere, and the specific environment and human relationships which the character is in. We should not rest satisfied with writing about what he was doing and how, but go deeper into the question in what specific environment he was acting in and why. A character's behavior is the outcome of his subjective initiative and a specific environment as well. Only by doing a good job of dealing with the relationship between the character, the times and the environment will it be possible to make the character truthful and believable, someone through whom the atmosphere of the times will be unfolded at a higher plane. Why is the hero Liu Ri in "Road to Infinity" so touching? Because the author has not only dealt with what

the hero was doing and how, but also revealed the contradictions between him and those around him as well as his human relations. As a fine party cadre, Liu Ri could not but do what he had done, and had to do so in such a specific environment. In the 1950's, behavior of impartiality in handling affairs and selfless dedication won unanimous approval in public opinion. But in the 1980's and 1990's, things have changed. Things old and new are overlapping each other, the commodity economy is pounding at values, and unhealthy tendencies have spread; consequently, human relationship today are far more complicated than in the past. Facing Liu Ri were mass support, encouragement from the provincial party committee, and also visible and invisible connections, and rumors and complaints lodged against him. It was precisely through investigation resulting from such complaints that his deeds came to light. He was duty-bound not to turn back on planning in the interest of the people of the whole county; however, he could not select a path which was the shortest distance between two points to progress, but had to zigzag. In him, we see stubbornness and optimism as well as perplexity and anxiety that ordinary people would hardly grasp. All this was precisely the characteristics that life has endowed this character. "Coming Out From an Ancient Fable" deals with model worker Li Shuangliang, who led the masses to move a waste hill through seven years of hard work. When he first decided to take up this arduous mission, some people supported the idea, others expressed doubt, and still others opposed it. The first person who stood up for him was his own wife, who had shared his weal and woe, and supported him with deep understanding for scores of years. Li Shuangliang gave play to the enthusiasm of workers for piece wages and bonuses, but the "management team" composed of retired cadres were doing their work obligatorily, and they brought their own overalls, too. Life is really that complicated. It is because the characters have surfaced against a backdrop of life filled with contradictions that the heroes in such works are three dimensional and provide the readers with a sense of the times.

Life is rich and colorful as is man's spiritual world. However, life and characters are after all not just a patchwork of diversified colors. The times has its own main current, and a character has his key tone. Just like a river, despite its detours, it still has a direction of flow. How should one portray new socialist images? How should one reflect our times? Reportage has made profitable exploration in recent years, and the accumulated experiences are worthy of earnest summarization.

III

When we place works of reportage published in recent years in the long river of historical development in our study, we cannot but primarily indicate their tremendous progress. Of course, they have their shortcomings, too. There are numerous mediocre works and a considerable number of pure "advertisement literature," and even in some fine, or

comparatively fine works, there are aspects requiring further improvement. In particular, some works are not condensed enough, but are becoming increasingly lengthy. This problem has already roused the attention of many comrades who care about reportage.

Some comrades have appealed for augmenting the literary value of reportage. I am all for this opinion. To me, there is need to elevate reportage's literary as well as ideological value. From some works, we can see fine source materials, and the authors did work hard on a basic grasp of their characters and matters; however, their works still lack ideological and historical depth. Some works are rather attractive in the narration of some specific incidents, but seem hollow and lackluster when the authors' own discussions are added. This is chiefly because the authors are still incapable of a basic grasp of life and the times. A basic grasp does not mean requiring the authors to deviate from the characters and incidents to make grand but inappropriate generalizations of life and the times, but to generalize the essence of the times through specific persons and matters, and bring out the trend of historical development. China is now at the crucial stage of socialist construction, the development of a commodity economy has broken through conservativeness and closed-mindedness and brought about tremendous progress in people's concepts; at the same time, it has also pounded at people's values and made commodity exchange relations permeate all sorts of human relations. How should we look upon commodity exchange? This is an issue that many writers have to deal with. On the one hand, it is necessary to enthusiastically affirm that the development of the planned commodity economy is tremendous historical progress; on the other hand, we should soberly see that conducting commodity exchange in the economic arena and developing human relationships in exchange in equal value are two different kettles of fish. The basic purport of communists is to serve the people, heart and soul, the fish-and-water relationship between the individual and the masses should not be changed into an ice-cold relationship of commodity exchange. We can see that some works have grasped this point pretty well, but others have not grasped it accurately. This precisely requires that we do a better job in studying Marxism-Leninism-Mao Zedong Thought, and Comrade Deng Xiaoping's thinking on building socialism with Chinese characteristics, while observing and analyzing life from the viewpoints of dialectical and historical materialism. This sounds commonplace, but there is no other way to elevate the ideological value of our reportage.

How should we assess the literary value of reportage? A man of letters should work hard to study artistic skill and master the various descriptive approaches in literature, including those in Western modernist works. However, the characteristic of reportage is the recording of actual events; regardless of approach, it should not weaken or even jeopardize the characteristics of recording actual events. True, in my view, approach is worth our attention, but regarding present conditions, the problem in lacking literary value in some works of reportage does not find expression in their approaches, but in not paying enough attention to characterization and being weak in artistic refinement. Reportage does not tolerate fabrication, but requires generalization

and refinement of life all the same. This precisely calls for meticulous care in selecting materials, cutting and trimming, layout, and plot, as well as the choice and usage of words. In reporting, one should be very patient and the more materials collected, the better. But in working out the plot and in writing, one should be bold at developing what is useful and discarding what is not, and refrain from dishing up everything heard, seen, and whatever comes across one's mind. Why do some works seem to be so lengthy? The key does not lie in length itself, but refinement. "Road to Infinity" is a fairly long report, but there is nothing superfluous in it, and the readers did not find it lengthy. Quite a few works awarded prizes this time are delicately written. "The Topic of Life" deals with a public security cadre, who impartially enforces the law in selfless dedication. The author is good at grasping some significant details in life to probe into the character's spiritual world, he did not list voluminous heroic deeds of the character, but dealt with a few incidents briefly, consequently, the character is well rounded, and the author succeeds in bringing to life a hero who "refuses to have anything to do with all his relatives and friends," but is still very rich in human sympathy. Another point worth our attention in this work is that the author did not stand at a height to comment on the character, instead, he wrote about the discussions of people in all walks of life in the society of the hero while telling the story. Although the author has stayed behind the curtain, such comments made "through other people's voices" have greater appeal than the author giving direct instructions. "The Leading Scalpel in the Mysterious Kingdom" also gives readers much food for thought. It deals with a surgeon with outstanding medical skill and ethics. He also performed several unprecedented major operations, causing a sensation at home and overseas. The author did not devote much space to describing the course of the operations, but depicts the hero's peculiar spiritual feature through his attitude toward his teachers, students, superiors, subordinates, patients, and family members. The story covers a long span, from the hero's youth to his old age, but it is not done in flat narration. The whole piece is natural with no traces of artificial links. In fact, the author has worked painstakingly in selecting source materials, cutting and trimming. The refinement of reality is an matter of artistic skill, but not confined to it. Here, it contains the author's artistic and ideological attainments, a comprehensive attainment in ideology and art at that.

In recent years, quite a number of works of reportage commenting on important social issues have surfaced. They have portrayed people and incidents, but did not center on characterization, with much weight devoted to the analysis and discussions of social problems. Strictly speaking, they are survey reports on social problems with a very strong literary coloring. Can works in this category be included in reportage? If they are acknowledged to be reportage, how should their literary value be augmented? To my mind, reportage is a combination of journalism and literature, such combination should be allowed various forms. Some works have stronger journalistic coloring, so long as they are truthful, and their discussion is basically scientific, they are conducive to the betterment of people and society. The

progress of modern science relies on the development of interdisciplinary science and borderline subjects. "Problem" reportage is like borderline subjects in natural sciences. As reportage in a broad sense, why should it not be allowed a place in the reportage kingdom? Regarding works in this category, we may require them to pay attention to characterization and the literary value of narration and

description, but it is unnecessary to require them to lean toward literature. They can still freely combine artistic description, narration, rational analysis, and discussion. The requirement on works in this category to be completely included in the pattern of pure literature is not helpful to the variation in spiritual products, nor is it helpful for works in this category to give full play to their special skill.

Liberate Pricing Of Electronics From Military Constraints

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[Article by Liu Tibin (0491 7555 2430): "Liberate Pricing of Electronics from Military Constraints"]

[Text] 1. The Issue

Electronic products occupy a pivotal place in China's defense industry. In recent years, enterprises in the defense industry have been switching to the production of civilian goods one after another as a means of supporting the military. Nevertheless, they continue to discharge the important mission of supplying the military forces with military equipment and modernizing national defense. Accordingly the enterprises must maintain the capacity to produce military goods and carry out weapons research. In the wake of the Gulf War, there is a greater appreciation of electronic weapons. For one thing, electronic military products significantly intensify the deadliness of weapons and protect the safety of the personnel. For another, electronic components now account for between 40 and 70 percent of modern weapons. Thirdly, command, management, communications, intelligence and other functions in the armed forces are increasingly inseparable from electronic equipment. Recently the whole nation from top to bottom has been talking about ways of vitalizing large and mid-sized enterprises, while ignoring the one major constraint on the vitalization of large and mid-sized electronic enterprises in the defense industry: the prices of their products. This writer proposes to offer a number of personal opinions on the uniqueness of electronic products in the defense industry, the existing problems in their price management, a price reform plan, and the means of achieving such a plan.

2. The Uniqueness Of Electronic Products In Defense Industry

The defense industry turns out a broad range of electronic products in small batches. It is dominated by defense needs and falls within the scope of command planning, which means it is largely insulated from the market economy. Essentially electronic production in the defense industry is knowledge-, technology-, and capital-intensive. The military electronics industry stands out mainly in two ways. Unlike the civilian electronics industry, its products usually do not go through the process of expanded reproduction. They are separate from the civilian electronic goods on the market and their principal buyer is the armed forces (or military industrial units.) Immune from market influences, the military electronics industry need not mount exhibitions, advertise, or otherwise publicize its products on an extensive scale as a means of getting their products onto the market. Unlike other output by the defense industry, military electronic products are technology-intensive products whose manufacturing is heavily dependent on the output of the "four news" and "seven specialties." The military electronics industry is also capital-intensive, involving huge sums of money from the research and development (R&D)

stage through production. Increasingly specialized, it takes the supplies of tens of thousands of factories to make a single product.

3. Existing Price Management Problems in Military Electronics Industry

According to the enterprises, these are the existing price management problems in the military electronics industry:

1) Excessive burden on enterprises. To accomplish the mission of supporting military production with civilian production, what limited profits an enterprise makes from its "civilian" sector are swallowed up by the military part of its operations because military goods are underpriced. In recent years, orders for military goods have fallen and state funding for the three S&T items of spending has decreased even faster. On the other hand, the enterprise is unable to dismiss its design, production, and managerial personnel as it has to carry on with research and manufacturing as usual so that it would be ready when it is called upon to crank up military goods production. In addition, equipment and assembly lines are operating far below capacity. The result is the idling and waste of a large amount of human and material resources.

2) There is too wide a gap between the volume of orders for military goods and the production capacity of the enterprises making military goods. Although the former trails the latter, enterprises are not allowed to practice batch pricing. Since pricing is static and the volume of orders is so small, the enterprises are unable to recoup the substantial sums of money they have spent on technological transformation, which in turn means higher fixed costs per unit of output. The enterprises are forced to operate below capacity for a long period of time and have difficulty recouping their initial investment, not to mention lowering costs. Thus further technological transformation is out of the question.

3) Military production comes under command planning. Orders are for small batches but must be filled at short notice. Be that as it may, the military evaluates the enterprise as a whole. To meet the need of the armed forces, the entire enterprise has no choice but to purchase some raw materials at negotiated prices. Some units sell raw and processed materials, parts, and components in batches. Taking the overall situation into consideration, the enterprise is forced to purchase some raw and processed materials, parts, and components in batches even though it actually needs a small quantity of them. The result is overstocking and waste. A number of enterprises under contract to make parts, components, or processed materials do not deliver on time. Even as they keep dragging their feet, however, nobody steps in to intervene. There is nothing the plant in question can do.

4) Price control on military industrial products is too rigid and the procedures are too cumbersome. Take the case of the fighter radar, for instance. The whole process from finalizing a design through price application to final approval can take anywhere from 1 to 2 months. The entire process consists of the following steps: 1) The enterprise calculates the costs. 2) The military representative assigned to the enterprise verifies the authenticity and legality of the

costs calculations; 3) The enterprise and the military agree on a price through joint consultation; 4) The plant and the military jointly report the price; 5) The department in charge of the enterprise (eg., the Ministry of Machine Building and Electronics) examines and verifies; 6) The military unit at the higher level (the ordering department in the air force) examines and approves (sending someone to the enterprise to examine and verify if necessary); 7) Upon the completion of the above-mentioned steps, the department in charge of the enterprise makes a report to the State Commodity Prices General Administration; 8) The State Commodity Prices General Administration examines and gives the final approval. If the enterprise wants to raise the price because it has used more raw materials, new technology, or new processes, it will be well nigh impossible.

5) The military has yet to develop a consciousness of the commodity economy. During price negotiations, a military representative ignores changes in the larger economy and is blind to the skyrocketing prices of raw and processed materials, parts, components, water, electricity, and gas. The gap between "military" prices and "enterprise" prices is so wide that the enterprise does not know what to make of it.

According to the military, these problems can be found in price management:

1) When they are asked to make military electronic products, some enterprises, particularly those that have been put under a lower administrative level, demand exorbitant prices. When they run into a problem, these enterprises do not try to come up with a solution but instead use the problem to demand higher prices or R&D fees from the military. Alternatively they may put off delivery. Not only do such practices result in waste but they also affect the projects ahead.

2) The pricing of military products continues to follow the old formula, namely, "cost + 5 percent profit = price." Many enterprises have simply no interest in improving management and cutting back on waste and balk at taking the initiative to lower costs. Some even resort to deception and deliberately inflate costs. Certain factories that make both military and civilian goods include the costs of civilian goods in the military goods account and are grossly wasteful in the use of raw materials. Others inflate the man-hours figures to make their expenses appear higher and even make up some costs. That way they manage to kill two birds with one stone: increase the profits of both military goods production and civilian goods production.

3) In violation of the "Quality Control Regulations for Military Industrial Products," some enterprises lower requirements as they shop for raw and processed materials as well as parts and components. In other enterprises, only a small percentage of the parts and components purchased elsewhere meet the stipulated standards. All of this sows the seeds of future problems in overall quality.

4) Since they share some of their interests, the military representatives at certain enterprises turn a blind eye when

enterprises inflate costs or report costs that simply do not exist, thus affecting the truthfulness of the prices of military products.

In short, neither the military nor enterprises are happy with the prices of military electronic products. If this situation continues, the enterprises' enthusiasm for manufacturing military electronic goods will gradually diminish, the military electronic enterprises will become increasingly unprofitable, and government subsidies will go up. And when government has to shell out more money in subsidies, it will have less to invest in the enterprises, which will then be put in a worse vicious circle with heavy losses. For electronic military products, price reform is the only way out.

4. Setting Up A Pricing Model for Military Electronic Products

1) Try averaging costs by department on an annual basis. Set average prices for each department and evaluate them every 2 years. The prices should be printed in a handbook for distribution nationwide by the chief of the general staff. It is then up to the enterprise to negotiate the method of calculating rewards or penalties and functional price increases using the average prices as a base, namely:

$$\text{departmental average price} + \text{functional price increase} + \text{reward/penalty} = \text{price of military electronic product.}$$

This method will be far superior to the existing formula: "factory cost + 5 percent profit = price of military electronic product." In the U.S., military products were priced before the 1984 fiscal year by adding a certain percentage to the cost. This method was full of loopholes. Under the current method, an average cost is set for each department plus compensation that varies in accordance with performance. As a result, prices have dropped 10 percent each fiscal year. Firms have all improved business management. Consumption has been reduced, spending has been curtailed, and deliveries are made on time, greatly improving the margin of profit.

What has to be pointed out here is that attention must be paid to the following as we apply the above formula:

(1) Investigate the practice of listing bogus costs. Eliminate the exaggerated numbers accumulated over the years.

(2) Functional price increase. The primary justification for functional price increases is that electronic goods are ever-changing. An increase in functions would necessitate a rise in costs. When a price increase is warranted, we only need to examine the "functional" price.

(3) Reward/penalty compensation is to be negotiated by the supplier and the buyer. The departments in charge need not get involved.

2) Apply hatch pricing to electronic military goods. These days an enterprise may have to invest large sums of money to produce a certain product but since the volume of orders is so small, it cannot recoup the considerable investment. Thus hatch pricing should be considered. Take electronic products, for instance. How much should 10 pieces cost? 50 pieces? 100 pieces? The prices should be different for

each. This is the only way in which the enterprises can earn enough to offset their costs and make a reasonable profit.

5. Measures To be Taken To Implement the New Formula.

If we are to solve the price problems pertaining to military electronic products and establish a new pricing model, we should rely mainly on macro-control and supplement it with the necessary administrative and legal regulatory and control tools.

1) Implement the "National Defense Production Law" as soon as possible. Explain the new pricing model as necessary. Require all industrial departments to set up a military industrial prices review office and severely deal with enterprises that threaten to delay production if they do not get the high prices they want. Lay down detailed regulations to prohibit arbitrary price inflation and depression and to protect the rights of the departments and enterprises.

2) Apply credit, tax, and import-export policies as tools of regulation and control. When there is a severe shortage of funds to finance the production of military electronic goods and the technological transformation of the industry, the banks may step in and provide the funds. The tax department should process tax reduction and tax refund cases expeditiously. The import-export department should promptly provide tax-protected supply of goods and open up the international market.

3) Intervene as necessary using administrative tools to control and regulate areas beyond the reach of legal and economic tools. Such intervention includes setting price goals and formulating a range of specialized policies and regulations. Resolve price differences between the enterprise and the military. Iron out problems that may arise in the supply of materials in the production of military products.

4) Draw up a long-term procurement plan including the possible volume of orders and present it to the enterprises making both military and civilian goods so that they can submit their plans and increase their volume of purchases at an earlier date and carry out technological transformation as soon as possible. That way waste is avoided and costs are lowered.

5) Establish a legal procedure for price review. Allow people to write in or call in with complaints and information. Step up supervision over the prices of military electronic products.

These days every nation is paying increasing attention to price management in military procurement and trying harder to control military spending. In the U.S., for

instance, the presidential Defense Management Committee has a review office devoted to scrutinizing the prices of military goods. Firms that demand exorbitant prices or raise prices arbitrarily are dealt with in accordance with established legal procedures. During the Gulf War, for instance, the "Patriot" missile performed an outstanding service. This prompted its manufacturer to charge a higher price only to be taken to court by the Defense Department. We too should institute similar price review procedures and enable people to write or call in with complaints. We should encourage the military, enterprises, and all quarters in society to supervise the honesty and legality of prices. Informants should be protected if the prices of military electronic products are to be monitored.

Navy Engineering Fleet Commended for Dam Construction

OW2409211292 Beijing XINHUA Domestic Service
in Chinese 1126 GMT 24 Sep 92

[By reporter Huang Caihong (7806 1752 5725)]

[Text] Beijing, 24 Sep (XINHUA)—Not long ago, the Sanmenxia Hydrojunction Administrative Bureau sent a silk banner to the Navy's leading organ. Embroidered with words reading "a feat more miraculous than the exploits of Da Yu [an emperor in ancient times who devoted himself to fighting floods], a firm rock in midstream shining with military prowess," the banner was in recognition of outstanding service performed by the engineering fleet under the East Sea Fleet in a construction project to expand the generating unit of the Sanmenxia Dam. Thus far, the engineering fleet has taken part in a total of 126 key state construction projects, and 100 percent of them passed inspection. Recently the Navy's party committee decided to award a collective merit citation, class two, to the engineering fleet.

In recent years, the engineering fleet of the East Sea Fleet has mobilized more than 200 vessels, with an aggregated navigation mileage totaling 147,000 nautical miles, to take part in various key projects in open coastal regions, including the construction of underwater facilities of the Qinshan Nuclear Power Station, installing facilities for the Beilungang piers, and dredging the watercourse for Huang Pu Jiang in Shanghai's Pudong. Earlier this year the Sanmenxia Hydrojunction Administrative Bureau decided to expand the dam before the flood season arrived in June. The engineering fleet received an order to dispatch top-rated divers to carry out underwater blasting. After more than 90 days of arduous efforts under water, 22 divers completed a total of 104 blasting assignments in some 90 days, which was one month ahead of the original schedule, thus enabling the generating unit to operate on time.

East Region

Jiangsu Circular on XINHUA RIBAO, QUNZHONG

OW2809091392 Nanjing XINHUA RIBAO in Chinese
16 Sep 92 p 1

[Unattributed report: "Conscientiously Do a Good Work Next Year in the Distribution of XINHUA RIBAO and the journal QUNZHONG"]

[Text] On 12 September, the general office of the provincial party committee and the general office of the provincial government jointly issued a circular calling on all localities to seriously do a good work in the distribution and subscription of XINHUA RIBAO and QUNZHONG (THE MASSES) journal in 1993.

The circular says XINHUA RIBAO is the organ of the provincial party committee, while QUNZHONG is a journal of political theories published under the auspices of the provincial party committee. As an important vehicle for the provincial party committee and the provincial government to guide the work in all fields of the province, they shoulder the important task of publicizing the party's line, principles, and policies, as well as the important task of encouraging the people across the province to take economic construction as the central task, uphold the four cardinal principles, persist in reform and opening up, and build socialism with Chinese characteristics. Since our study and implementation of Comrade Deng Xiaoping's important talks and the guidelines of the plenary meeting of the Central Political Bureau, this province has entered a new state of development in reform, opening up, and economic development. The new situation and new tasks have set new demands for the party newspaper and the party journal. In order to meet the readers' demand, the provincial party committee has decided to increase the pages of XINHUA RIBAO from four to eight, beginning on 1 January 1993. After the increase, XINHUA RIBAO will show a brand new look in front of the readers, with big changes in guiding principle, editorial policy, reportage contents, and layout. To enhance the timeliness, we are planning to print the newspaper simultaneously also in several other localities, including Wuxi, Xuzhou, Lianyungang, and Nantong, so that readers throughout the province can read up-to-date XINHUA RIBAO.

In order to do a good work in the distribution of XINHUA RIBAO and QUNZHONG journal in 1993, the following notice is hereby issued:

1. The party committees and governments of all cities and counties should attach importance to the distribution and subscription of XINHUA RIBAO and QUNZHONG journal in the new year. The propaganda, organization, and rural work departments at all levels and all mass organizations should do a good job in propaganda and organization work and actively assist the post and telecommunications department in accomplishing the task of distribution and the task of seeking subscribers. The post and telecommunications department should seize the opportunity to actively seek subscribers, strive to improve service attitude and work, and ensure good delivery work.

2. Leading organs at all levels and primary party organizations should take the lead in subscribing to the newspaper and journal. All enterprises, institutions, colleges, middle and primary schools, and the People's Liberation Army units in the province should generally subscribe to XINHUA RIBAO. Guesthouses and hotels should strive to provide each guest room with a copy of XINHUA RIBAO. Economically more developed localities should strive to maintain or increase their present XINHUA RIBAO subscriptions, and make the paper available to each villagers' group in their rural areas and to each workshop in their relatively large village and town enterprises. Other localities should strive to maintain their present XINHUA RIBAO subscriptions, and if conditions permit, they should also make the paper available to each villagers' group. The small number of economically weak localities should maintain at least 85 percent of last year's subscriptions and ensure that XINHUA RIBAO is available to each administrative village.

3. It is necessary to do a serious and good job in the subscription of QUNZHONG journal. While the present subscriptions should be maintained, all localities should be encouraged to increase the subscriptions if they can.

4. All organizations should ensure the funds for the subscription to the party paper and journal. A few primary party organizations may use a portion of their party membership dues in the subscription as they did before, if they indeed have financial difficulties. Subscription should also be encouraged among urban and rural people on an individual basis.

Please implement the above circular.

U.S. Does Not Recognize Taiwan 'Belongs' To China

92CM0421B Taipei TZULI WAPAO in Chinese 4 Sep 92
p 3

[Article by Li Ch'ing-yueh (262) 8825 2588: "University Professor Says U.S. Does Not Recognize Taiwan Belongs To China"]

[Text] The Foreign Ministry of Communist China has attacked President Bush's decision to sell F-16 fighter planes to Taiwan as blatant interference in China's internal affairs. Under the principles of international law, according to Professor Hsu Ch'ing-hsiung (6079 1987 7160), an expert in international law at the Japanese Studies Institute of Tan-kang University, the sale of weapons to Taiwan by the U.S. means that the latter does not recognize Taiwan as part of China (meaning Communist China). However, if the KMT persists in claiming that Taiwan is a part of China and represents China, and even in talking about reunification, it may confuse international opinion.

Hsu Ching-hsiung noted that ever since the Republic of China withdrew from the United Nations in 1971, the international community has recognized the Communist Chinese regime as the only representative of China. In accordance with the principles of international law, since the Communist Chinese regime has never ruled Taiwan, most of the communiques between China and other nations setting up diplomatic ties, including the UN communique, merely "take note of," "acknowledge," "respect," or "understand and respect" that "Taiwan is an inseparable part of the PRC." Even the joint declaration signed by China and the (former) Soviet Union on 18 May 1989 only states in Article 11, which deals with the status of Taiwan, that "the Chinese side points out that Taiwan is an inseparable part of China." Today only a handful of nations that are unfamiliar with international law and have had no dealings with Taiwan use the expression "recognize." This

proves that countries around the world are all very cautious in handling the relations between China (Communist China) and Taiwan. It also shows that these countries do not recognize Taiwan as part of China, otherwise there would have been no need to resort to other expressions besides "recognize."

In the Sino-South Korean joint communique establishing diplomatic ties between the two nations, the word "respect" is used to indicate Seoul's position. That, Hsu Ch'ing-hsiung pointed out, is in line with the principles of international law. It is not for South Korea to recognize Taiwan as part of China unless it satisfies one of the following two conditions, namely, either Taiwan is part of South Korea territorially or South Korea has ruled Taiwan at some point in the past. If neither condition is met, Seoul has no business "recognizing" anything. As soon as a nation recognizes Taiwan as part of China, a citizen of that nation must obtain a visa from China if he wants to enter Taiwan. Likewise, when that nation wants to have any dealings with Taiwan, it too must obtain China's consent. Otherwise, it would be encroaching upon another country's territory. Yet instead of talking about international law or letting the people understand international law, all the KMT does is criticize South Korea for its ingratitude and talks endlessly about reunifying the two sides of the straits.

In Hsu Ch'ing-hsiung's opinion, America's decision to sell weapons to Taiwan, a decision based on economic need and the principle of fair trade, gives the people and government of Taiwan a good opportunity to tell the international community that Taiwan is a nation with its own independent sovereignty. Taiwan buys weapons so that it can keep the peace in the Taiwan Strait and safeguard the security of its people. But if the KMT regime persists in claiming that Taiwan is part of China and talks endlessly about reunifying the two sides of the straits, it may end up convincing the world that there is something to Beijing's objections and making the U.S. the scapegoat.

How Countries Handle Taiwan's Sovereignty Issue and How They Handle The Issue in the Phraseology Used in Communiques Establishing Diplomatic Relations With the Chinese Communists

Method of Handling	English Expression Used	Country	Notes
taking notice	Take Note of	Argentina, Belgium, Canada, about a dozen countries in all	
acknowledging	Acknowledge	U.S., U.K., Thailand, New Zealand, about a dozen countries in all	*in Chinese communiques "chen-gen" is used
respect	Respect	South Korea, Netherlands	
understanding and respect	Understand & Respect	Japan, Philippines	
recognize	Recognize	Jordan, Portugal, about a dozen countries in all	
no mention of issue in communique establishing relations nor mention of the issue of Taiwan's status		Saudi Arabia, Iran	*Communique establishing diplomatic relations only acknowledges that the Chinese Communists are the legal government
no mention of the Taiwan issue		Indonesia, United Arab Emirates, 20-some countries in all	*also does not acknowledge that the Chinese Communist regime represents all of China

Hsu Ch'ing-hsiung pointed out that the KMT always tries to suppress the Taiwan independence movement by suggesting that independence for Taiwan would provoke Communist China into attacking Taiwan militarily. Wouldn't buying weapons from the U.S. do exactly the same thing? Hsu Ch'ing-hsiung expressed his hope that we would all ponder why the quest by the Taiwan people for an independent sovereign nation is invariably opposed by the KMT regime using Communist China as an excuse.

Ontario Governor Welcomes Firms To Invest

OW1211100692 Taipei CNA in English 0837 GMT
12 Nov 92

[Text] Taipei, Nov. 12 (CNA)—Taiwan businessmen are welcome to invest in Ontario, Visiting Canadian Province's Governor Bob Rae said Wednesday.

As to investment guarantees, Rae promised at a news conference that he would advise the Canadian Government to give Taiwan businessmen the same treatment enjoyed by other foreign entrepreneurs—an investment guarantee agreement.

Rae is now in Taipei to promote economic and trade relations between Taiwan and his province. Ontario is the biggest province of Canada with a population of 10 million.

Rae said Taiwan and Ontario can increase their cooperation in the fields of telecommunication, transport, environmental technology and aerospace. Ontario is very competitive in those areas.

Rae said he was glad to announce that several companies based in Ontario have won major contracts in the six-year National Development Plan being implementing by the Republic of China (ROC) on Taiwan. Among them, Sabcock and Wilcox signed a US\$250 million deal earlier this year to supply a coal-fired boiler to Taiwan Power Company; Lovat Tunnel Equipment, Inc. has won a US\$22 million contract in the mass rapid transit system; Northern Telecom is expected to win contracts worth US\$259 million.

Rae said Taiwan is Ontario's second largest trading partner in Asia. Total trade between Ontario and Taiwan grew by 56 percent last year from US\$756.6 million to US\$1.18 billion. And the trade volume between Taiwan and Ontario is expected to gain a further growth by US\$196.85 million to US\$236.22 million this year, Rae said.

At the conference, Rae also expressed he hopes Taiwan will become a member of the General Agreement on Tariffs and Trade (GATT) as soon as possible.

Also in the afternoon, Rae called at Foreign Minister Chien Fu and Economic Affairs Minister Vincent C. Hsiao to exchange views on bilateral cooperation.

British Firms To Jointly Build Passenger Jet

OW2310040292 Taipei Voice of Free China in English
0200 GMT 20 Oct 92

[From the "News and Commentary" program]

[Text] The ROC [Republic of China] Government has decided to support a \$500 million joint venture between British Aerospace PLC and Taiwan Aerospace Corporation to build passenger jets. The cabinet has agreed that the government will help provide land for a manufacturing plant in Taiwan and exchange technical aid from Taiwan's military aircraft program.

Vice Economic Minister Yang Shi-chien said his ministry has also proposed that the state-owned Chiao Tung Bank and a cabinet development fund lend \$240 million to Taiwan Aerospace.

Taiwan Aerospace, 29 percent owned by the government, signed the memorandum of understanding with British Aerospace last month, under which each company will invest \$250 million to co-produce 146 RJ aircraft. The deal, which will be a major boost for Taiwan's fledgling aerospace industry and the financially struggling British company, is expected to be concluded in December.

Slovenian Economic Delegation To Visit Taipei

OW0711113392 Taipei CNA in English 0755 GMT
7 Nov 92

[Text] Taipei, Nov. 7 (CNA)—A seven-member trade delegation from the newly independent Slovenia is arriving Sunday for a six-day visit.

Led by Feri Horvat, president of the Chamber of Economy of Slovenia, the delegation will sign an agreement with the China External Trade Development Council (CETRA) on Nov. 9 to strengthen cooperation between the two sides.

In an effort to attract Taiwan manufacturers to make investments in Slovenia, the guests will hold a seminar on 11 November to introduce the east European country's investment climate.

Slovenia, which declared independence from former Yugoslavia in June 1991 and later won international recognition, is an export-oriented country and boasts rich tourism resources, CETRA officials said.

They noted that CETRA Vice President Wu Kuan-hsiung made a visit to Slovenia in May.

GATT Group on Taipei Accession To Hold Second Meeting

OW0711113892 Taipei CNA in English 0809 GMT
7 Nov 92

[Text] Geneva, Nov. 6 (CNA)—The working party formed by the General Agreement on Tariffs and Trade (GATT) on Taiwan's accession has tentatively scheduled to hold its second meeting on March 25-26.

The decision was made at the working party's first meeting here Friday, which was chaired by Ambassador Martin Morland of Britain and attended by 55 contracting parties of the Geneva-based world trade regulating body.

Other decisions reached at the meeting included that the contracting parties will present to the GATT secretariat before 9 December their questions on Taiwan's memorandum of foreign trade regime, and Taiwan's answers must

reach the secretariat by March 5 and each of the 55 contracting parties by March 12.

According to the GATT usual practice, the working group will hold its third meeting six weeks after the second meeting.

Stepping out of the meeting hall, Morland said the closed-door meeting progressed very smoothly.

Those present at the meeting as observers included representatives of Mainland China, Bulgaria, Russia, Saudi Arabia, and the World Bank.

During the meeting, Taiwan's representative Sheu Ke-sheng, director on the Board of Foreign Trade, extended his thanks to Morland, GATT secretariat, and the contracting parties for their support of Taiwan's membership.

Sheu also made a report on the latest development of Taiwan's trade regime, which covered intellectual property right protection and the establishment of the fair trade commission.

The representative pledged that Taiwan will abide by GATT rules and regulations and adopt a more open trade policy.

Ambassador R.H. Yerxa, chief delegate of the United States to the global organization, expressed his welcome to the convening of the working party on Taiwan's accession, saying "we are very pleased to finally witness the formal initiation of these negotiations."

"Chinese Taipei, as it is known in GATT, is by any measurement a major trading economy, and its formal inclusion in the international trading system will provide a

sound basis for its economic growth and also strengthen the GATT," the ambassador noted.

Yerxa said the United States will take an active role in future discussions.

Representatives of the European Community, Australia, Argentina, Hong Kong, New Zealand, South Korea, Finland, Chile, Japan, the Association of Southeast Asian Nations, and Mexico also spoke in support of Taiwan's future accession to the GATT.

No 'Change Overnight' Foreseen in Mainland After Deng Dies

*OW2310085992 Taipei CNA in English 0805 GMT
23 Oct 92*

[Text] Taipei, Oct. 23 (CNA)—A ranking mainland affairs official said Friday that the Peking regime will not change overnight like the those in East Europe though Mainland China is farther and farther away from communism.

Ma Ying-jeou, vice chairman of the cabinet-level Mainland Affairs Council (MAC), said "We should not expect immediate exchanges on the mainland once Peking's top leader dies."

Speaking to the board members of the Overseas Chinese National Salvation League, Ma said the MAC is closely watching the development of the mainland situation, and has prepared measures for any eventuality.

Even if an "earth-shaking change" erupted on the mainland, Ma said no foreign powers would be able to intervene there.

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